



POWER CORPORATION
OF CANADA

Annual Management's Discussion and Analysis

March 17, 2021

Consolidated Financial Statements and Notes

For the year ended
December 31, 2020

Power Corporation of Canada

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This document contains management's discussion and analysis of the financial condition, financial performance and cash flows of Power Corporation of Canada (the Corporation) for the twelve-month and three-month periods ended December 31, 2020 and the audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2020. This document has been filed with the securities regulatory authorities in each of the provinces and territories of Canada and is available under the Corporation's profile on SEDAR at www.sedar.com.

Power Corporation of Canada

PART A

Great-West Lifeco Inc.

PART B

IGM Financial Inc.

PART C

Groupe Bruxelles Lambert

PART D

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Power Corporation of Canada

PART A

Management's Discussion and Analysis

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Management's Discussion and Analysis

MARCH 17, 2021

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

The following presents Management's Discussion and Analysis (MD&A) of the consolidated financial condition and financial performance of Power Corporation of Canada (Power Corporation or the Corporation) (TSX: POW; POW.PR.E), a public corporation, for the twelve-month and three-month periods ended December 31, 2020. This MD&A should be read in conjunction with the audited consolidated financial statements of Power Corporation and notes thereto for the twelve-month period ended December 31, 2020 (the 2020 Consolidated Financial Statements). Additional information relating to Power Corporation, including its Annual Information Form, may be found on the Corporation's website at www.powercorporation.com and on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS › Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's current expectations, or with respect to disclosure regarding the Corporation's public subsidiaries, reflect such subsidiaries' current expectations as disclosed in their respective MD&A. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries including the fintech strategy, the expected impact of the COVID-19 pandemic on the Corporation and its subsidiaries' operations, results and dividends, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, the intended effects of the Reorganization (as defined herein), the Corporation's NCIB (as defined herein) commenced in 2021, the proposed redemption by the Corporation and Power Financial of certain classes of their First Preferred Shares, management of standalone businesses to realize value over time, the completion of the Lion Electric merger transaction (as defined herein) and the timing thereof, and the Corporation's subsidiaries' disclosed expectations, including as a result of the acquisition of the retirement services business of MassMutual, Personal Capital, Northleaf and related synergies, impacts and timing thereof. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, fluctuations in interest rates, inflation and foreign exchange rates, monetary policies, business investment and the health of local and global equity and capital markets, management of market liquidity and funding risks, risks related to investments in private companies and illiquid securities, risks associated with financial instruments, changes in accounting policies and methods used to report financial condition (including uncertainties associated with significant judgments, estimates and assumptions), the effect of applying future accounting changes, business competition, operational and reputational risks, technological changes, cybersecurity risks, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, man-made disasters, terrorist attacks, wars and other conflicts, or an outbreak of a public health pandemic or other public health crises (such as COVID-19), the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors and with respect to forward-looking statements of the Corporation's subsidiaries' disclosed in this MD&A, the factors identified by such subsidiaries in their respective MD&A.

The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including the availability of cash to complete purchases under the NCIB and to redeem First Preferred Shares of the Corporation and Power Financial, that the list of factors in the previous paragraph, collectively, are not expected to have a material impact on the Corporation and its subsidiaries and with respect to forward-looking statements of the Corporation's subsidiaries' disclosed in this MD&A, the risks identified by such subsidiaries in their respective MD&A and Annual Information Form most recently filed with the securities regulatory authorities in Canada and available at www.sedar.com. While the Corporation considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

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

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

Organization of the Annual MD&A

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The following abbreviations are used throughout this report:

adidas	adidas AG	MassMutual	Massachusetts Mutual Life Insurance Company
Alternative asset investment platforms or Investment platforms	Alternative Asset Investment Platforms	MOWI	Mowi ASA
BME	Madrid Stock Exchange	Nautilus	Nautilus Solar Energy, LLC
Canada Life	The Canada Life Assurance Company	Northleaf	Northleaf Capital Group Ltd.
China AMC	China Asset Management Co., Ltd.	Ontex BV	Ontex BV
EBR	Euronext Brussels	OSE	Oslo Stock Exchange
EPA	Euronext Paris	PanAgora	PanAgora Asset Management, Inc.
European private equity	Sagard Europe II, Sagard Europe 3, Sagard Europe 4 and Sagard NewGen	Pargesa	Pargesa Holding SA
GBL	Groupe Bruxelles Lambert	Parjointco	Parjointco SA
GEA	GEA Group AG	Parjointco Switzerland	Parjointco Switzerland SA
GLC	GLC Asset Management Group Ltd.	Parques	Parques Reunidos Servicios Centrales, S.A.
Great-West Life	The Great-West Life Assurance Company	Peak	Peak Achievement Athletics Inc.
Great-West Life & Annuity or Empower Retirement	Great-West Life & Annuity Insurance Company	Pernod Ricard	Pernod Ricard SA
IFRS	International Financial Reporting Standards	Personal Capital	Personal Capital Corporation
IGM or IGM Financial	IGM Financial Inc.	Portag3 I or Portag3 I LP	Portag3 Ventures Limited Partnership
IG Wealth Management	Investors Group Inc.	Portag3 II or Portag3 II LP	Portag3 Ventures II Limited Partnership
Imerys	Imerys SA	Potencia or Potentia Renewables	Potentia Renewables Inc.
IntegraMed	IntegraMed America, Inc.	Power Energy	Power Energy Corporation
Investment Planning Counsel or IPC	Investment Planning Counsel Inc.	Power Financial	Power Financial Corporation
Irish Life	Irish Life Group Limited	Power Pacific or Sagard China	Power Pacific Investment Management Inc.
Koho	KOHO Financial Inc.	Power Sustainable	Power Sustainable Capital Inc.
LafargeHolcim	LafargeHolcim Ltd.	Putnam	Putnam Investments, LLC
Lifeco	Great-West Lifeco Inc.	Sagard Healthcare Royalty or SHRP	Sagard Healthcare Royalty Partners, LP
Lion or Lion Electric	The Lion Electric Co.	Sagard Holdings	Sagard Holdings Inc.
London Life	London Life Insurance Company	SGS	SGS SA
Lumenpulse	Lumenpulse Group Inc.	SIX	Swiss Stock Exchange
Mackenzie or Mackenzie Investments	Mackenzie Financial Corporation	Total	Total SA
		TSX	Toronto Stock Exchange
		Umicore	Umicore, NV/SA
		Wealthsimple	Wealthsimple Financial Corp.
		Webhelp	Webhelp Group
		XETR	XETRA Stock Exchange

Overview

POWER CORPORATION OF CANADA

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

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

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

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

Power Corporation's value creation strategy is designed to achieve superior investment returns and stable cash flows. Power Corporation's core investments, held through Power Financial, are its controlling interests held in Lifeco and IGM and its investment in GBL, which historically have provided stable cash flows through their regular dividends. Significant investments have also been made in alternative asset investment platforms:

- Sagard Holdings, since its inception in 2005, has evolved into a multi-strategy alternative asset manager. Sagard Holdings looks to generate attractive returns by matching investment opportunities with flexible capital solutions and pairing entrepreneurs with teams that have deep industry knowledge. Sagard Holdings invests across four asset classes: private credit, healthcare royalties, venture capital and private equity (including European private equity), and also offers wealth management services.
- Power Sustainable is a sustainability-led global alternative asset manager with a long-term investment approach. Power Sustainable aims to create long-term value by actively investing in entrepreneurial management teams, companies and projects with sustainable business models. Power Sustainable currently manages two main platforms:
 - Power Pacific invests in China's public equity markets, selecting companies with sustainable business models that have significant alignment to China's multi-decade transformation to an innovation-led economy. Power Pacific invests with a high-conviction, fundamentals-based research driven investment process.
 - Power Energy actively invests in the development, construction and operation of renewable energy infrastructure assets across North America. Power Energy applies the Corporation's principles of collaboration and building trusted relationships in industries that benefit from the global energy transformation.

The alternative asset investment platforms also have significant influence and controlling interests in several standalone businesses, which will be managed to realize value over time.

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

2020 Highlights

REORGANIZATION

On December 13, 2019, the Corporation and Power Financial announced the execution of a definitive agreement to effect a reorganization transaction (Reorganization), pursuant to which each common share of Power Financial held by holders of common shares of Power Financial other than the Corporation and its wholly owned subsidiaries (PFC Minority Shareholders), would be exchanged for 1.05 subordinate voting shares of the Corporation and \$0.01 in cash.

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

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

- **Simplified Corporate Structure** – The Reorganization has effectively eliminated the dual-holding company structure and consolidated ownership of the group's industry-leading financial services operating companies, while concurrently reducing organizational complexity.
- **Focus on Financial Services** – the Corporation's strategy now emphasizes financial services, including the businesses of Power Financial and the alternative asset investment platform businesses of the Corporation.
 - **Power Financial's Operating Companies** – Commitment to value creation at each of Lifeco, IGM and GBL, Power Financial's leading insurance, retirement, wealth management and investment franchises.
 - **The Corporation's Alternative Asset Investment Platforms** – The Corporation has built investment platforms that manage portfolios on behalf of the Corporation and third-party investors in several alternative asset classes where the Corporation has a competitive advantage. The Corporation will continue to prioritize the development of these investment platforms. The Corporation also has significant influence and majority control of several standalone businesses, which will be managed to realize value over time.
- **Operating Expense Reduction** – The Corporation anticipates significant near-term cost reductions of approximately \$50 million per year within two years of the date of the Reorganization by eliminating duplicative public company-related expenses and rationalizing other general and administrative expenses. To date, the Corporation has implemented actions to achieve 61% of the targeted reduction.
- **Financing Expense Reduction** – The Corporation and Power Financial intend to redeem an aggregate of \$350 million of their First Preferred Shares with available cash within two years from the date of the Reorganization, resulting in reduced annual financing costs by approximately \$15 million per year.
- **Increase in the Corporation's Quarterly Dividend** – The Corporation increased its quarterly dividend by 10.5% to 44.75 cents per share, commencing in the second quarter of 2020.

On February 12, 2020, in connection with the Reorganization, and in accordance with the pre-emptive right (Pre-Emptive Right) in favour of holders of participating preferred shares included in the Corporation's Articles, the Corporation issued 6,006,094 participating preferred shares. The Pre-Emptive Right entitled holders of participating preferred shares to acquire from the Corporation, pro rata to their respective holdings in participating preferred shares, an aggregate number of participating preferred shares that is equal to 12.0% of the number of subordinate voting shares issued pursuant to the Reorganization. Pansolo Holding Inc. (Pansolo), a corporation controlled by the Desmarais Family Residuary Trust, purchased 6 million participating preferred shares under the Pre-Emptive Right on February 12, 2020, resulting in direct and indirect ownership by Pansolo of voting shares of the Corporation to which are attached an aggregate 50.6% of the total votes of all the Corporation's shares outstanding.

STRATEGIC HIGHLIGHTS AT THE PUBLICLY TRADED OPERATING COMPANIES

A number of strategic transactions were completed throughout 2020, including:

- **Irish Progressive Services International Limited (IPSI):** On August 4, 2020, Irish Life, a subsidiary of Lifeco, completed the sale of IPSI, a wholly owned subsidiary whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ Group of companies. Lifeco recognized a net gain of \$94 million post-tax resulting from the transaction.
- **Personal Capital Corporation (Personal Capital):** On August 17, 2020, Empower Retirement, a subsidiary of Lifeco, completed the acquisition of Personal Capital, a hybrid wealth manager that combines a leading-edge digital experience with personalized advice delivered by human advisors. Under the terms of the agreement, Empower Retirement acquired 100% of the equity of Personal Capital, which included the 24.8% interest owned by IGM (approximately 21.7% after giving effect to dilution), for net consideration of US\$813 million on closing and deferred consideration of US\$20 million, which represents Lifeco's management best estimate and could increase up to US\$175 million subject to achievement of target growth objectives. Lifeco funded the upfront consideration with cash on hand and US\$500 million in debt financing. The results of Personal Capital are included in the Financial Services business unit of Lifeco's U.S. segment since the date of acquisition.

Lifeco expects to incur integration expenses of US\$57 million pre-tax, of which US\$3 million were incurred to date (US\$2 million post-tax), with the integration of Personal Capital expected to be completed in the first quarter of 2022. During the twelve months ended December 31, 2020, Lifeco incurred transaction expenses of US\$22 million pre-tax (US\$20 million post-tax) related to the Personal Capital acquisition.

During the third quarter of 2020, IGM recognized the sale of its equity interest in Personal Capital for proceeds of \$233 million (US\$176 million) and up to an additional US\$25 million in consideration subject to Personal Capital achieving certain target growth objectives. The investment in Personal Capital had been classified as an associate by the Corporation and recorded using the equity method. As a result of this transaction, the Corporation, through Lifeco, acquired control of Personal Capital which led to the recognition of a gain, as a result of the investment in Personal Capital being measured at fair value on the date control was attained, of \$37 million.

- **Northleaf Capital Group Ltd. (Northleaf):** On October 29, 2020, Mackenzie, a subsidiary of IGM, and Lifeco entered into a strategic relationship with Northleaf to expand and enhance private markets product capabilities across distribution channels. Mackenzie and Lifeco jointly acquired a non-controlling interest in Northleaf through an acquisition vehicle 80% owned by Mackenzie and 20% owned by Lifeco, providing a significant presence in the large and rapidly growing private markets investment industry. The acquisition vehicle owned by Mackenzie and Lifeco acquired a 49.9% non-controlling voting interest and a 70% economic interest in Northleaf for cash consideration of \$241 million and up to an additional \$245 million in consideration at the end of five years, subject to the business achieving exceptional growth in certain performance measures over the period. Mackenzie and Lifeco have an obligation and right to purchase the remaining economic and voting interest in Northleaf commencing in approximately five years and extending into future periods. Lifeco and IGM together have committed, as part of the transaction, to make a minimum investment through 2022 in Northleaf's product offerings.

Northleaf is a global private equity, private credit and infrastructure fund manager, headquartered in Toronto, with more than 150 employees across seven offices in Canada, the U.S., U.K. and Australia. Northleaf's assets under management, including invested capital and uninvested commitments, were \$14.6 billion at December 31, 2020.

IGM has determined that the acquisition vehicle has significant influence over Northleaf, and has classified its investment in Northleaf as an associate using the equity method.

- **GLC Asset Management Group Ltd. (GLC) and Quadrus Group of Funds (QGOF):** On December 31, 2020, Mackenzie acquired all of the common shares of GLC, a wholly owned subsidiary of Lifeco, for cash consideration of \$185 million. GLC's principal activity was the provision of investment management services to Canada Life. GLC has \$37 billion in assets under management and a 50-year history of providing investment advisory services to a range of mutual funds, and individual and group segregated funds offered by and through Canada Life.

Lifeco recognized a net gain on disposal of \$143 million, net of restructuring costs of \$16 million after tax in the fourth quarter. The Corporation currently consolidates GLC and therefore the transaction has no impact on the consolidated statements of earnings and balance sheets.

In a separate transaction, Canada Life acquired the fund management contracts relating to the private label Quadrus Group of Funds (QGOF) from Mackenzie for total cash consideration of \$30 million. Mackenzie was previously the manager and trustee of the QGOF. Subsequent to the sale, Mackenzie continues to provide investment and administration services to the QGOF. IGM recognized a gain on the sale of the QGOF, net of acquisition costs, of \$21 million after tax (\$25 million pre-tax) in the fourth quarter of 2020. The Corporation eliminated this gain on consolidation and therefore the transaction has no impact on the consolidated statements of earnings and balance sheets.

Benefits of the deal to Mackenzie include the net addition of \$30.1 billion in assets under management, resulting in Mackenzie becoming one of Canada's largest asset managers. It also expands Mackenzie's distribution reach to the fast-growing group retirement business channel and establishes Mackenzie as one of the top three providers in Canada of investment solutions to defined contribution plans and other group retirement offerings.

The transaction provides Lifeco with access to greater scale and more investment capabilities. Lifeco also established its own mutual fund manager, Canada Life Investment Management Ltd. (CLIML) and, on December 31, 2020, CLIML assumed fund management responsibilities for the Canada Life Mutual Funds offered by Quadrus Investment Services Ltd., a subsidiary of Canada Life, and other Canada Life branded investment funds offered in Canada. CLIML entered into a long-term administration agreement with Mackenzie and Canada Life, and CLIML and Canada Life entered into a long-term distribution agreement with Mackenzie to provide them with access to Mackenzie's investment management services at preferred rates.

- **Retirement services business of Massachusetts Mutual Life Insurance Company (MassMutual):** On December 31, 2020, Empower Retirement acquired the retirement services business of MassMutual, via indemnity reinsurance, strengthening Empower Retirement's position as the second largest player in the U.S. retirement market. Concurrent to the acquisition of the MassMutual retirement services business, Empower Retirement is serving as recordkeeper for MassMutual's defined contribution plan. Lifeco paid a ceding commission of US\$2.3 billion, net of working capital adjustments, to MassMutual, and funded the transaction with existing cash, short-term debt and US\$1.5 billion in long-term debt issued on September 17, 2020.

This transaction increases the synergy potential of Empower Retirement's acquisition of Personal Capital across a larger combined business. In addition, Empower Retirement and MassMutual intend to enter into a strategic partnership through which digital insurance products offered by Haven Life Insurance Agency, LLC and MassMutual's voluntary insurance and lifetime income products will be made available to customers of Empower Retirement and Personal Capital.

Lifeco anticipates realizing cost synergies through the migration of MassMutual's retirement services business onto Empower Retirement's record-keeping platform. Run-rate cost synergies are expected to be US\$160 million pre-tax at the end of integration in 2022. Lifeco expects revenue synergies in 2022 to be US\$30 million pre-tax and continue to grow beyond 2022. Lifeco expects to incur integration and restructuring expenses of US\$125 million pre-tax, of which US\$29 million pre-tax (US\$23 million post-tax) were recognized in the fourth quarter of 2020. Lifeco incurred transaction expenses of US\$46 million pre-tax (US\$36 million post-tax) in the fourth quarter of 2020 (US\$51 million pre-tax (US\$40 million post-tax) for the twelve months ended December 31, 2020) related to the MassMutual transaction. Lifeco expects the integration to be completed within 18 months following closing.

- **Simplification of Current Holding Structure of Groupe Bruxelles Lambert:** On March 11, 2020, Parjointco and Pargesa announced an agreement for a transaction that would simplify the group structure. A public exchange offer was initiated by Parjointco for all Pargesa shares not already owned by Parjointco, under which Pargesa shareholders received 0.93 shares of GBL for each Pargesa bearer share they held. Following the transaction, Pargesa was delisted from the SIX.

At the completion of the transaction, Parjointco maintained approximately the same economic equity interest in GBL of 28%. GBL shareholders approved the implementation of double-voting rights, a condition of the transaction, at GBL's extraordinary shareholders meeting held on April 28, 2020; as a result, Parjointco retained de facto control of GBL. On June 12, 2020, following the end of the initial acceptance period, Parjointco had received shareholder acceptances which, together with Parjointco's existing interest, represented 94% of Pargesa's total voting rights. An additional acceptance period ended on June 26, 2020, resulting in Parjointco's interest in Pargesa increasing, upon settlement of the offer in July 2020, to 97.4% (98.5% of the voting rights).

Following the successful public exchange offer of Parjointco, on July 30, 2020, the board of directors of Pargesa approved the merger between Pargesa and Parjointco Switzerland SA, a wholly owned subsidiary of Parjointco. As part of the merger, the remaining shareholders of Pargesa were provided compensation of a value substantially equivalent to the exchange ratio offered by Parjointco during the exchange offer, on terms and conditions described in the merger agreement. The merger was approved by Pargesa's shareholders at an extraordinary general meeting held on September 4, 2020 and was completed on November 20, 2020. The reorganization of Pargesa further simplifies the corporate structure of the Power group of companies as part of the ongoing strategy of value creation.

STRATEGIC HIGHLIGHTS AT THE ALTERNATIVE ASSET INVESTMENT PLATFORMS AND OTHER INVESTMENTS

Sagard Holdings

- **Wealthsimple financing round:** On October 14, 2020, Wealthsimple announced the closing of a \$114 million investment on a pre-money valuation of \$1.4 billion. The investment was led by TCV, one of the largest growth equity investors focused on technology, along with Greylock Partners, Meritech Capital, Allianz X and Two Sigma Ventures. As a result of the investment, these investors acquired an ownership interest of 7.5% on a fully diluted basis.

In the third quarter, the fair value increase in Wealthsimple resulted in a charge related to the remeasurement of the put right liability of certain of the non-controlling interests in Wealthsimple to fair value and carried interest payable; the Corporation's share of this charge was \$69 million, of which \$36 million was reflected in Lifeco and IGM's contribution to adjusted net earnings based on their respective interests. The Corporation indirectly holds a controlling interest in Wealthsimple and consolidates its results. On completion of the transaction, the Corporation recorded a dilution gain of \$77 million, recognized in equity in the fourth quarter.

- **Koho financing round:** At December 31, 2020, Portag3 I and Portag3 II, Power Financial, Lifeco and IGM, through a limited partnership controlled by Power Financial (the Group), held a 48.7% equity interest in Koho (54.4% at December 31, 2019). Koho is a Canada-based digital platform offering a suite of financial services to provide consumers an experience that is an alternative to traditional banks. At December 31, 2020, the cost of the Group's investment in Koho was \$47 million (\$32 million at December 31, 2019).

On December 1, 2020, Koho closed a financing round of \$50 million of new capital led by Drive Capital. Portag3 II participated in the round and invested a further \$12 million. The indirect equity interest held by the Corporation decreased from 54.4% to 48.7% on December 1, 2020. Contemporaneously, the shareholders agreement was amended, and the Corporation determined that it no longer controls Koho. Subsequent to the close of the financing round, the Corporation has significant influence over Koho and will account for its investment as an associate. As a result, the Corporation has derecognized the assets and liabilities of Koho in its financial statements and has recognized a gain of \$90 million in the fourth quarter, which is included in net investment income in the statement of earnings. The Corporation's share of this gain is \$71 million, gross of related carried interest, of which \$40 million was reflected in Lifeco and IGM's contribution to adjusted net earnings based on their respective interests.

Power Sustainable

- **Power Sustainable announced the creation of the Power Sustainable Energy Infrastructure Partnership:** Subsequent to year-end, in January 2021, Power Sustainable announced the launch of an investment platform with an initial \$1 billion of committed capital dedicated to the renewable energy sector, including a commitment of \$400 million from Power Sustainable and \$150 million from Lifeco. Through Potentia Renewables and Nautilus Solar Energy, wholly owned subsidiaries of Power Sustainable and leading integrated owner-operators of high-quality renewable energy assets, the Partnership will invest in the development, construction, financing and operation of renewable energy assets across North America.
- **Lion Electric announced a merger agreement with Northern Genesis Acquisition Corp.:** On November 30, 2020, Lion, an innovative manufacturer of zero-emission vehicles in which Power Sustainable held an indirect equity interest of 44.1%, announced that it intends to combine with Northern Genesis Acquisition Corp. (Northern Genesis). Northern Genesis is a publicly traded special-purpose acquisition company focused on a commitment to sustainability and strong alignment with environmental, social and governance principles. Upon closing of the proposed transaction, a wholly owned subsidiary of Lion will merge with Northern Genesis, and as a result Lion is expected to be listed on the TSX and the New York Stock Exchange. The proposed transaction also includes a US\$200 million committed private placement of common shares of Lion, through which Power Sustainable is expected to invest an additional US\$17 million (approximately C\$22 million).

Power Sustainable also holds call rights to acquire additional shares from certain existing shareholders of Lion. The fair value of the call rights was estimated at \$102 million at December 31, 2020 (nil at December 31, 2019) and the change in fair value was recorded in net investment income on the consolidated statement of earnings.

At completion of the proposed transaction, Power Sustainable is expected to hold an equity interest in Lion of approximately 34.6% based on the subscription price, assuming the exercise of certain of its call rights and no redemptions from Northern Genesis public stockholders. The effect of the change in ownership is expected to result in a gain which will be recorded in earnings at the close of the transaction.

COVID-19

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have responded with significant monetary and fiscal interventions designed to stabilize economic conditions. Equity markets in particular have been volatile, experiencing material and rapid declines in the first quarter of 2020; however, during the remainder of 2020, the markets have experienced recoveries.

Refer to the section “Risk Management” in this MD&A for a summary of how the Corporation is managing the risks related to COVID-19 and to the section “Summary of Critical Accounting Estimates and Judgments” in this MD&A and to Note 2 of the 2020 Consolidated Financial Statements for additional disclosure of the impact on the Corporation’s significant judgments, estimates and assumptions. Refer to Parts B and C of this MD&A for a further discussion of the potential consequences due to COVID-19 as well as a further discussion on risk management, measurement uncertainty and the potential exposures at Lifeco and IGM.

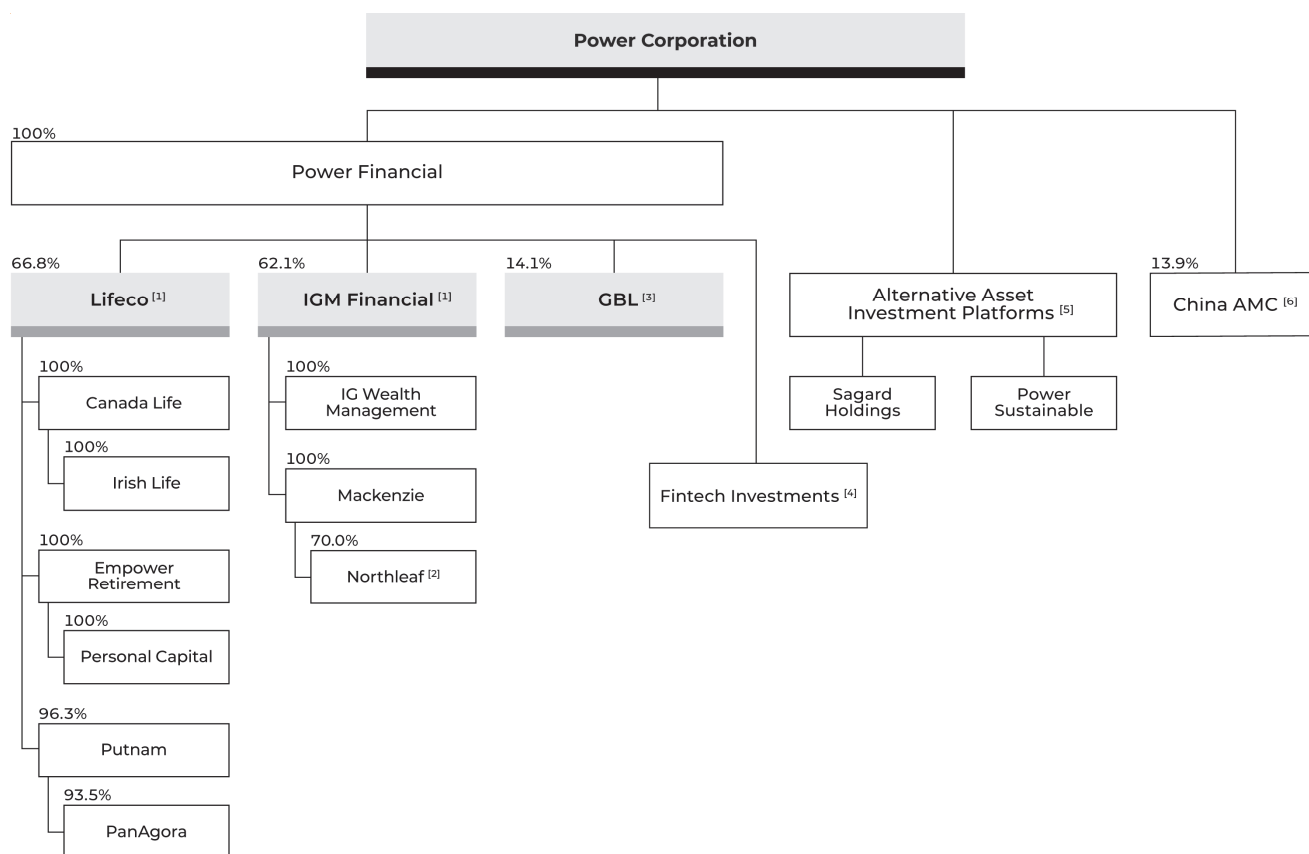
ORGANIZATION OF THE MD&A

The Corporation's MD&A consists of four parts:

- Part A – Power Corporation, presented on a consolidated and non-consolidated basis;
- Part B – Lifeco's annual MD&A, as prepared and disclosed by Lifeco in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from Lifeco's website (www.greatwestlifeco.com);
- Part C – IGM's annual MD&A, as prepared and disclosed by IGM in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from IGM's website (www.igmfinancial.com);
- Part D – GBL's financial results, derived from publicly disclosed information, as issued by GBL in its year-end press release. Further information on GBL's results is available on its website (www.gbl.be).

Lifeco (TSX: GWO) and IGM (TSX: IGM) are public companies listed on the Toronto Stock Exchange. GBL is a public company listed on the Brussels Stock Exchange (EBR: GBLB). Market capitalizations reported in the following sections are at December 31, 2020.

The following chart reflects the economic interests held by the Corporation at December 31, 2020, which include the operating subsidiaries (Lifeco and IGM) and its interest in GBL, held through Power Financial, and interests held through the Corporation's alternative asset investment platforms, and an interest in China AMC.



In bold: Publicly listed holdings

[1] Lifeco, through Canada Life, holds a 3.9% interest in IGM, and IGM holds a 4.0% interest in Lifeco.

[2] Represents a 49.9% non-controlling voting interest. The interest in Northleaf is held through an acquisition vehicle in which IGM holds an 80% equity interest and Lifeco holds a 20% equity interest.

[3] Held through Parjointco, a jointly controlled corporation (50%). Parjointco has a 43.2% voting interest in GBL. Refer to the section "GBL" for a list of investments.

[4] Includes a controlling interest in Portag3 I, Portag3 II and Wealthsimple, held through Power Financial, Lifeco and IGM.

[5] Refer to the section "Alternative Asset Investment Platforms" for a list of investments held by each investment platform.

[6] IGM also holds a 13.9% interest in China AMC.

PUBLICLY TRADED OPERATING COMPANIES

The Corporation holds controlling interests, through Power Financial, in Lifeco and IGM. It also has significant holdings in a portfolio of European based global companies through its investment in GBL.

Lifeco

Great-West Lifeco Inc. (TSX: GWO), market capitalization of \$28.2 billion at December 31, 2020, is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Lifeco operates in Canada, the United States and Europe under the brands Canada Life, Empower Retirement, Putnam Investments and Irish Life. For reporting purposes, Lifeco has five reportable segments: Canada, the United States, Europe, Capital and Risk Solutions, and Corporate, which reflect geographic lines as well as the management and corporate structure of the companies. Effective January 1, 2020, as a result of strategic operational changes, Lifeco divided its previously reported Europe segment into two separate reporting segments – Europe, and Capital and Risk Solutions.

In Canada, through the Individual Customer and Group Customer business units, Lifeco offers a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, including life, disability and critical illness insurance products as well as wealth savings and income and other speciality products. In 2019, Lifeco's three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, moved to one brand in Canada: Canada Life. Canada Life has become the brand under which the organization creates, delivers and communicates products and services in Canada across all of its lines of business. On January 1, 2020, Great-West Life, London Life and Canada Life, and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., amalgamated into a single life insurance company: The Canada Life Assurance Company. This amalgamation creates operating efficiencies and simplifies Lifeco's capital structure to allow for more efficient use of capital, although it is not expected by Lifeco to have a material financial impact.

The United States segment operates two primary business units, Financial Services and Asset Management. Empower Retirement, the Financial Services unit, is a leading provider of employer-sponsored retirement savings plans in the public/non-profit and corporate sectors that offers employer-sponsored defined contribution plans, administrative and record-keeping services, individual retirement accounts, fund management as well as investment and advisory services. Personal Capital Corporation, acquired in 2020, is a hybrid wealth manager that combines a leading-edge digital experience with personalized advice. Its products and services are marketed nationwide through its sales force, brokers, consultants, advisors, third-party administrators and financial institutions. Financial Services also includes a retained block of life insurance, predominately participating policies, which are administered by Protective Life Insurance Company (Protective Life), as well as a closed retrocession block of life insurance. The Asset Management unit, Putnam, provides investment management, certain administrative functions, and distribution services through a broad range of investment products, including the Putnam funds, its own family of mutual funds which are offered to individual and institutional investors. PanAgora, a Putnam affiliate, offers a broad range of investment solutions using sophisticated quantitative techniques.

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

The Europe segment comprises three distinct business units: United Kingdom, Ireland and Germany. The U.K. business unit offers bulk and individual payout annuities, equity-release mortgages, investments (including life bonds, retirement drawdown and pension), individual protection and group insurance. The Ireland business unit offers savings and investments, individual and group life insurance, health insurance and pension products. The German business unit offers pension, lifetime guaranteed minimum withdrawal benefit and individual protection products. The U.K. and German units operate under the Canada Life brand and the Irish unit operates under the Irish Life brand.

The Capital and Risk Solutions segment includes the operating results of the reinsurance business unit which operates primarily in the U.S., Barbados, Bermuda and Ireland.

At December 31, 2020, Power Financial and IGM held interests of 66.8% and 4.0%, respectively, in Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. The *Insurance Companies Act* limits voting rights in life insurance companies to 65%.

See Part B of this MD&A for additional information on Lifeco.

IGM Financial

IGM Financial Inc. (TSX: IGM), market capitalization of \$8.2 billion at December 31, 2020, is a leading wealth and asset management company supporting financial advisors and the clients they serve in Canada, and institutional investors throughout North America, Europe and Asia. IGM's principal operating subsidiaries are wealth manager IG Wealth Management and asset manager Mackenzie Investments. In the third quarter of 2020, IGM realigned its reportable segments to better characterize IGM's business lines and improve transparency into the key drivers of IGM's business. IGM now has three reportable segments: Wealth Management, Asset Management and Strategic Investments and Other.

The Wealth Management segment reflects the activities of operating companies that are principally focused on providing financial planning and related services to Canadian households and represents the activities of IG Wealth Management and Investment Planning Counsel. These firms are retail distribution organizations that serve Canadian households through their securities dealers, mutual fund dealers and other subsidiaries licensed to distribute financial products and services. The Wealth Management segment provides a comprehensive planning approach through IG Wealth Management consultants and IPC advisors by offering a broad range of financial products and services including a broad selection of mutual funds, managed portfolios, advisory accounts and unique portfolio management programs as well as insurance products and mortgage and banking solutions. IG Wealth Management distinguishes itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships. Investment Planning Counsel is an independent distributor of financial products, services and advice in Canada.

The Asset Management segment reflects the activities of operating companies primarily focused on providing investment management services, and represents the operations of Mackenzie Investments. Investment management services are provided to a suite of investment funds that are distributed through third-party dealers and financial advisors, and through institutional advisory mandates to financial institutions, pensions and other institutional investors. Mackenzie Investments is a diversified asset management solutions provider and offers a wide range of investment mandates through a boutique structure and uses multiple distribution channels. Mackenzie seeks to be Canada's preferred global asset management solutions provider and business partner.

The Strategic Investments and Other segment primarily represents the key strategic investments made by IGM, including China AMC (refer to the section "China AMC"), Lifeco, Northleaf, Wealthsimple, and the Portag3 Ventures funds (refer to the section "Alternative Asset Investment Platforms"), as well as unallocated capital.

At December 31, 2020, Power Financial and Canada Life, a subsidiary of Lifeco, held interests of 62.1% and 3.9%, respectively, in IGM's common shares.

See Part C of this MD&A for additional information on IGM.

GBL

Power Financial Europe SA, a wholly owned subsidiary of Power Financial, and the Frère Group each hold a 50% interest in Parjointco. Parjointco holds a controlling interest in GBL, a Belgian holding company listed on the Brussels Stock Exchange.

Parjointco's interest in Parjointco Switzerland (formerly Pargesa), increased from 55.5% (75.4% of the voting rights) at December 31, 2019 to 100% (100% of the voting rights) at December 31, 2020. In turn, Parjointco Switzerland's interest in GBL decreased from 50.0% at December 31, 2019 to 28.2% (43.2% of the voting rights) at December 31, 2020.

GBL, EBR: GBLB; market capitalization of €13.3 billion, is one of the largest listed holding companies in Europe. A holding company, focused on long-term value creation, GBL relies on a stable and supportive family shareholder base. Its portfolio is comprised of global industrial and services companies, leaders in their markets, in which GBL plays its role of professional shareholder.

At December 31, 2020, GBL's portfolio was mainly comprised of investments in the following:

PUBLICLY LISTED

▪ Imerys (EPA: NK) – mineral-based specialty solutions for industry ▪ SGS (SIX: SGSN) – testing, inspection and certification ▪ adidas (XETR: ADS) – design and distribution of sportswear ▪ Pernod Ricard (EPA: RI) – wines and spirits ▪ LafargeHolcim (SIX: HOLN and EPA: LHN) – cement, aggregates and concrete	▪ Umicore (EBR: UMI) – materials technology and recycling of precious metals ▪ GEA (XETR: GIA) – supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors ▪ Ontex (EBR: ONTEX) – disposable hygiene products ▪ MOWI (OSE: MOWI) – producer of Atlantic salmon

PRIVATELY HELD

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

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

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

On December 15, 2020, GBL announced that it had entered into a definitive agreement to acquire a majority stake in Canyon Bicycles GmbH (Canyon). Canyon is a leading and fast-growing German manufacturer of premium conventional and electric bikes with global reach and a leader in direct-to-consumer distribution. Subsequent to year-end, on March 9, 2021, GBL closed the acquisition and invested €0.4 billion. GBL controls the acquisition vehicle, holding 60% of its capital at the closing of the acquisition.

During the first quarter of 2021 through March 10, 2021, GBL entered into forward sales maturing on March 26, 2021 and related to a fraction of its holding in LafargeHolcim, representing 0.98% of the capital (6 million shares) for a net amount of €285 million. These sales will generate a capital gain of €62 million. GBL's holding will decrease from 7.57% of LafargeHolcim's capital at the end of 2020 to 6.6% as a result of these disposals.

GBL's net asset value at December 31, 2020 was €20,498 million, compared with €20,349 million at December 31, 2019.

During the fourth quarter of 2020, Pargesa was delisted from the SIX. The Corporation now includes the financial information publicly filed by GBL. See Part D of this MD&A for additional information on GBL.

ALTERNATIVE ASSET INVESTMENT PLATFORMS

Since the launch of the first Sagard fund in 2002, Power Corporation has continued to develop alternative asset investment platforms (investment platforms) that manage portfolios on behalf of the Corporation and third-party investors in several alternative asset classes in three principal geographies: Europe, North America, and China. The investment platforms Sagard Holdings and Power Sustainable are managed locally by experienced investment professionals who have an in-depth knowledge of the local public and/or private markets and benefit from collaboration within the Power group of companies. Power Corporation's investment platforms seek to generate attractive returns for their investors by: (i) attracting experienced investment teams to execute on investment strategies where the investment platforms' ecosystem gives them a competitive advantage; (ii) leveraging the global network created over decades by the Power group to drive the commercial success of their investment strategies and underlying investments; and (iii) providing flexible capital solutions to solve a range of business and financing needs.

The investment platforms comprise asset management and investing activities. Earnings from asset management activities include income earned from management fees and carried interest, net of investment platform expenses. Earnings from investing activities comprise income earned on the capital invested by the Corporation (proprietary capital) in the investment funds managed by each platform and the share of earnings (losses) of controlled and consolidated subsidiaries held within the investment platforms.

Assets under management of the investment platforms include:

- Net asset value of the investment funds managed, including unfunded capital commitments;
- Assets managed on behalf of clients by asset managers controlled within the investment platforms;
- Fair value of equity interests in standalone businesses; and
- Cash and other assets held by the manager.

Sagard Holdings

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

The operations of Sagard Holdings are comprised of asset management and investing activities.

ASSET MANAGEMENT ACTIVITIES

Sagard Holdings has US\$6.1 billion of assets under management, including unfunded commitments, of which US\$181 million relates to equity interests in standalone businesses (see section "Standalone businesses" below), across four asset classes: private credit, healthcare royalties, venture capital and private equity, including US\$0.7 billion through its wealth management business.

The following table summarizes the funds managed by Sagard Holdings and the Corporation's interests in each of the funds:

December 31, 2020			Interest held		Commitment				Manager compensation	
(in millions; except as otherwise noted)	Vintage year	Total capital commitment	Power Corporation	Third parties & associated companies ^[1]	Total funded	Unfunded	Distributions to date ^[2]	Net asset value of the fund ^[3]	Base fees ^[4]	Base carried interest
		(\$)	(%)	(%)	(\$)	(%)	(\$)	(\$)	(%)	(%)
Private Credit (in US\$)										
Sagard Credit Partners	2017	557	18.0	82.0	300	46.1	96	377	1.50	15.0
Sagard Credit Partners II ^[5]	2020	650	7.7	92.3	-	100.0	-	-	1.50	20.0
Healthcare Royalties (in US\$)										
Sagard Healthcare Royalty Partners	2019	563	13.3	86.7	61	89.2	-	51	1.75	20.0
Venture Capital (in C\$)										
Portag3 Ventures I LP ^[6, 7]	2016	396	37.8	62.2	396	-	17	1,042	2.00	10.0
Portag3 Ventures II LP ^[6]	2018	427	12.4	87.6	189	55.8	-	323	2.00	20.0
Private Equity (in €)										
Sagard Europe II	2006	748	22.0	78.0	721	3.7	991	129	1.75	20.0
Sagard Europe 3	2013	808	37.3	62.7	646	20.0	250	899	2.00	20.0
Sagard Europe 4 ^[5]	2020	395	38.2	61.8	112	71.8	-	106	1.75	20.0
Sagard NewGen ^[5]	2020	111	54.4	45.6	12	88.9	-	10	2.00	20.0

[1] Third parties and associated companies includes commitments from management as well as commitments of Lifeco (US\$50 million in Sagard Credit Partners II and \$33 million in Portag3 II), IGM (\$33 million in Portag3 II), Pargesa (€37 million in Sagard Europe II), and GBL (€113 million in Sagard Europe II, €218 million in Sagard Europe 3, €149 million in Sagard Europe 4 and €50 million in Sagard NewGen). Lifeco and IGM have invested \$23 million and \$223 million, respectively, in Portag3 I.

[2] Excludes distributions which have been recalled by the fund for reinvestment, as well as distributions made by the fund due to rebalancing from increases in fund size.

[3] Controlled and consolidated investments held through investment funds are presented at fair value.

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

[5] Sagard Credit Partners II, Sagard Europe 4 and Sagard NewGen will continue fundraising activities in 2021.

[6] Includes an interest in Portag3 I and Portag3 II, of 37.8% and 7.7%, respectively, held through Power Financial.

[7] Includes investments held by Portag3 I, Power Financial and IGM, through limited partnerships controlled by Power Financial, in Wealthsimple and Koho.

Private Credit

- Sagard Credit Partners manages US\$1,283 million of assets, including unfunded commitments.
- Sagard Credit Partners LP, a fund launched in 2017, provides credit capital directly to public and private middle-market companies across the U.S. and Canada. Sagard Holdings has committed US\$100 million, of which it has funded US\$54 million at December 31, 2020. Sagard Credit Partners LP held investments of \$463 million (US\$363 million) at December 31, 2020.

In March 2021, a public company to which the fund has extended a loan, filed for creditor protection under the Companies' Creditors Arrangement Act and Chapter 15 of the bankruptcy code in the United States. The filings are the result of unprecedented weather events in the state of Texas and corresponding charges from the Electric Reliability Council of Texas. The fund's exposure to this counterparty at December 31, 2020 was US\$93 million. Sagard Credit Partners continues to closely monitor this company.

- In October 2020, Sagard Holdings launched Sagard Credit Partners II, LP, its second credit fund, which will invest in private credit, primarily in secured loans in what the fund's investment manager believes to be the underserved non-sponsor-backed middle market in Canada and the U.S. During the fourth quarter, Sagard Holdings announced that it had completed the first closing of Sagard Credit Partners II, with commitments totalling US\$650 million, of which Sagard Holdings has committed US\$50 million. Sagard Credit Partners will continue fundraising activities through 2021.

Healthcare Royalties

- Sagard Healthcare Royalty Partners (SHRP) manages US\$553 million of assets, including unfunded commitments. Sagard Holdings has committed US\$75 million, of which it has funded a net amount of US\$8 million at December 31, 2020. Sagard Healthcare Royalty Partners LP (SHRP LP), a fund launched in 2019, invests in the life sciences sector with a focus on investments protected by strong intellectual property. SHRP LP invests in various structures including traditional healthcare royalties, royalty securitizations and royalty-related credit.

SHRP LP held investments of \$72 million (US\$56 million) at December 31, 2020.

Subsequent to year-end, on February 18, 2021, Sagard Holdings announced the final closing of SHRP with total commitments of US\$725 million.

Venture Capital (Fintech Investments)

- Portag3 Ventures, the venture capital arm of Sagard Holdings, manages US\$1,239 million (C\$1,578 million) of assets, including unfunded commitments and an investment in Wealthsimple, a consolidated subsidiary. The Corporation, through investments held by Power Financial, together with Lifeco and IGM, are anchor investors in the Portag3 I and Portag3 II funds. Portag3 Ventures is a global fintech investor focused on identifying visionary entrepreneurs building the next generation of financial service companies. Its global focus enables the leveraging of common knowledge from one region to another. Through its funds, Portag3 I and Portag3 II, Portag3 Ventures has invested in more than 50 fintech companies and investment funds.
- Portag3 I held investments of \$101 million at December 31, 2020 (\$64 million at December 31, 2019), excluding the investment in Wealthsimple, a consolidated subsidiary discussed below (Wealthsimple and Koho were excluded at December 31, 2019). During the second quarter of 2020, Portag3 I distributed \$12 million to its investors.
- Portag3 II has total capital commitments of \$427 million, of which Sagard Holdings has committed \$20 million and Power Financial, Lifeco and IGM have each committed \$33 million for a total of \$119 million. At December 31, 2020, the fair value and cost of Portag3 II's investment portfolio were \$369 million (\$143 million at December 31, 2019), excluding the investment in the consolidated subsidiary Koho), and \$210 million (\$110 million at December 31, 2019), respectively.

Private Equity

- Sagard Holdings, through its wholly owned subsidiary Sagard SAS, a French management company headquartered in Paris, manages US\$2.1 billion (€1.7 billion) of assets, including unfunded commitments. Sagard SAS manages investment funds dedicated to investing in mid-sized and small-cap private companies based in Europe. Sagard SAS currently has four private equity funds including Sagard Europe II, Sagard Europe 3, Sagard Europe 4 and Sagard NewGen.

During 2020, Sagard SAS launched a new fund, Sagard Europe 4. In the fourth quarter of 2020, Sagard SAS completed an additional closing, increasing the capital commitments of Sagard Europe 4 by €93 million to a total committed capital of €395 million. The Corporation has committed an amount of €150 million, which may be increased to €200 million under certain circumstances, to Sagard Europe 4.

In the second quarter of 2020, the Corporation committed an amount of €60 million to Sagard NewGen, a new fund launched by Sagard SAS. Sagard NewGen, a European small cap fund focused on the healthcare and technology sectors, will invest in majority and minority holdings with deal sizes typically between €10 million and €50 million. Sagard NewGen will seek to invest in companies aiming to become leaders in their market that share a commitment to innovation and sustainability.

Sagard SAS will continue fundraising in 2021 for Sagard Europe 4 and Sagard NewGen.

- In January 2021, Sagard Holdings announced the launch of its Canadian Private Equity platform, a strategy which will focus on the middle-market in Canada. Sagard expects external fundraising efforts to begin in the second half of 2021.

Wealth Management

- On October 6, 2020, Sagard Holdings announced the acquisition of a 50.8% controlling interest in Grayhawk Investment Strategies Inc. (Grayhawk). Grayhawk, a registered portfolio manager, investment manager and exempt market dealer, manages \$0.9 billion in assets for high-net worth (HNW) Canadian families.

INVESTING ACTIVITIES

The Corporation holds the following investments in funds, including the investments held through Power Financial, which are managed by Sagard Holdings:

Asset class	Private Credit	Healthcare Royalties	Venture Capital		Private Equity			
December 31, 2020 (in millions of Canadian dollars)	Sagard Credit Partners LP	Sagard Healthcare Royalty Partners LP	Portag3 I LP ^[1]	Portag3 II LP	Sagard Europe II	Sagard Europe 3	Sagard Europe 4	Sagard NewGen
Investments to date ^[2]	124	50	150	33	221	518	130	10
Share of distributions to date ^[2]	53	41	11	10	289	310	66	-
Fair value of the investment at December 31, 2020	88	9	389	45	34	493	68	9

[1] Includes investment in controlled and consolidated subsidiary, Wealthsimple, at fair value.

[2] Includes distributions which have been recalled by the fund and distributions due to rebalancing.

Fintech Investments

Fintech investments are comprised of investments, primarily held through Power Financial, in the Portag3 I and Portag3 II funds and Wealthsimple.

WEALTHSIMPLE

At December 31, 2020, Portag3 I, Power Financial and IGM held, through a limited partnership controlled by Power Financial, an undiluted equity interest in Wealthsimple of 74.9% (84.9% at December 31, 2019), representing a voting interest of 75.9% and a fully diluted equity interest of 61.7%. Wealthsimple is one of Canada's leading financial technology companies, and operates one of the country's largest and fastest-growing digital investing platforms.

Wealthsimple continues to scale its presence in the marketplace and expand its suite of investment and savings products, which include Wealthsimple Cash, Wealthsimple Invest, Wealthsimple Save, Wealthsimple Trade, Wealthsimple Crypto and Wealthsimple for Work (W4W). At December 31, 2020, Wealthsimple had over 500,000 clients, excluding tax clients, across the Canadian, United States and United Kingdom markets with assets under administration of over \$9.7 billion, compared with \$5.0 billion (excluding the assets under administration of Wealthsimple for Advisors) at December 31, 2019, representing a year-over-year growth of 94%.

On September 14, 2020, Wealthsimple completed the sale of Wealthsimple for Advisors to Purpose Advisor Solutions.

On March 4, 2021, Wealthsimple announced that it has sold its U.S. book of business, and expects to transfer all of its U.S.-based customer accounts in mid-2021. This disposal supports Wealthsimple's strategy to focus on the Canadian market.

At December 31, 2020, the cost of the Group's investment in Wealthsimple was \$315 million (same as at December 31, 2019).

Power Sustainable

Power Sustainable is a global multi-platform alternative asset manager with a long-term investment approach focused on sustainable strategies. It has offices in Montréal, Toronto, Shanghai, Beijing and New Jersey. Power Sustainable is comprised of two platforms: the Pacific platform invests in the China equity markets, seeking high-quality, sustainable business models with a fundamentals-based, research-driven investment process; and the Energy Infrastructure platform invests in the development, construction and operations of renewable energy infrastructure assets in North America.

POWER PACIFIC

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

Since its inception in 2005, the Corporation has invested \$336 million in Power Pacific and has received distributions of \$177 million, including distributions of \$57 million in 2020. At December 31, 2020, the fair value of the Corporation's investment in Power Pacific, including cash and other, was \$1,142 million (includes unrealized gains of \$402 million), compared with \$739 million at December 31, 2019.

	December 31, 2020	December 31, 2019
Investment in A shares	1,025	731
Cash and other	117	8
Total portfolio, at fair value	1,142	739

POWER ENERGY

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

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

Total assets of the renewable energy infrastructure portfolio were \$1,909 million at December 31, 2020. The portfolio has a combined 1,302 MW of solar and wind operating assets, which includes 330 MW of assets under construction, and 575 MW of assets in advanced development projects.

During 2020, Power Energy invested \$128 million in the renewable energy infrastructure portfolio. At December 31, 2020, Power Energy had invested a total of \$609 million in its portfolio. The fair value of the renewable energy infrastructure portfolio was \$730 million at December 31, 2020.

Subsequent Event

In January 2021, Power Sustainable launched the Power Sustainable Energy Infrastructure Partnership, a partnership with initial committed capital of \$1 billion dedicated to the renewable energy sector, including a commitment of \$400 million from Power Sustainable and \$150 million from Lifeco. At the closing, certain existing operating assets and projects under development from Potentia Renewables and Nautilus have been transferred to the partnership in exchange for consideration in cash and units of the Fund. In the future, Power Sustainable may transfer other projects currently under construction on their commercial operation date.

Standalone Businesses

The Corporation also has the following equity investments in standalone businesses which are managed to realize value over time:

SAGARD HOLDINGS

- **Peak:** Sagard Holdings holds a 42.6% equity interest and 50% of the voting rights in Peak. Peak designs and markets sports equipment and apparel for ice hockey, baseball, softball and lacrosse under iconic brands including Bauer and Easton. The Corporation's investment is accounted for using the equity method.

On October 20, 2020, Easton Diamond Sports, LLC (Easton), a wholly owned subsidiary of Peak, and Rawlings Sporting Goods, Inc. (Rawlings), announced that they entered into a definitive agreement for Rawlings to acquire Easton. As part of the agreement the existing shareholders of Peak will continue to participate as minority owners in the combined organization. The transaction closed in the fourth quarter. Peak recognized a gain on disposition, the Corporation's share of this gain was US\$15 million. Peak has determined that it has significant influence over the combined organization and will account for its interest as an associate using the equity method. This transaction is not expected to have a material impact on the Corporation's ongoing earnings.

- **GP Strategies:** Sagard Holdings holds a 21.2% equity interest in GP Strategies Corporation, a global performance improvement company offering sales and technical training, eLearning solutions, management consulting and engineering services. The Corporation accounts for its investment using the equity method.
- **IntegraMed:** Sagard Holdings held a 91.6% interest in IntegraMed, a private healthcare services company operating a network of fertility clinics in North America. On May 20, 2020, IntegraMed entered into restructuring proceedings and accordingly the Corporation no longer controls IntegraMed. Effective May 20, 2020, the Corporation has derecognized the assets and liabilities of IntegraMed resulting in a recovery on deconsolidation of \$27 million (US\$19 million) which has been included in Adjustments in the second quarter of 2020.

POWER SUSTAINABLE

- **Lumenpulse:** Power Sustainable, through Power Energy, holds a controlling interest of 60.5% in Lumenpulse, an internationally recognized designer, developer, and manufacturer of a wide range of high-performance and sustainable specification-grade LED solutions for commercial, institutional, and urban environments.
- **Lion Electric:** Power Sustainable, through Power Energy, holds a 44.1% equity interest at December 31, 2020 in Lion Electric. An innovative manufacturer of zero-emission vehicles, Lion designs and manufactures all-electric school buses and midi/minibuses for special needs or urban transit as well as urban trucks. Lion positions itself as a leading original equipment manufacturer (OEM) in transportation electrification in North America. Refer to the section "2020 Highlights".

CHINA AMC

Founded in 1998 as one of the first fund management companies in China, China AMC has developed and maintained its position among the market leaders in China's asset management industry. China AMC's total assets under management, excluding subsidiary assets under management, were RMB¥1,461 billion (C\$285 billion) at December 31, 2020.

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

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

Basis of Presentation

IFRS FINANCIAL MEASURES AND PRESENTATION

The 2020 Consolidated Financial Statements of the Corporation have been prepared in accordance with IFRS and are presented in Canadian dollars.

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

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

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

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

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

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

Control	Accounting Method	Earnings and Other Comprehensive Income	Impairment Testing	Impairment Reversal
Controlling interest in the entity	Consolidation	Consolidated with non-controlling interests	Goodwill and indefinite life intangible assets are tested at least annually for impairment	Impairment of goodwill cannot be reversed Impairment of intangible assets is reversed if there is evidence of recovery of value
Significant influence or joint control	Equity method	Corporation's share of earnings and other comprehensive income	Entire investment is tested for impairment	Reversed if there is evidence the investment has recovered its value
Investment	Available for sale (AFS)	Earnings consist of dividends received and gains or losses on disposals The investments are marked to market through other comprehensive income Earnings are reduced by impairment charges, if any	Impairment testing is done at the individual investment level A significant or prolonged decline in the value of the investment results in an impairment charge A share price decrease subsequent to an impairment charge leads to a further impairment	A subsequent recovery of value does not result in a reversal

At December 31, 2020, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
Publicly traded operating companies^[1]			
Lifeco ^[2]	66.8	Controlling interest	Consolidation
IGM ^[3]	62.1	Controlling interest	Consolidation
GBL ^[4]	14.1	Joint control	Equity method
China AMC ^[5]	13.9	Significant influence	Equity method
Alternative asset investment platforms			
Sagard Holdings	100.0	Controlling interest	Consolidation
Wealthsimple ^[1, 6]	18.7	Controlling interest	Consolidation
Portag3 I ^[1, 7]	63.0	Controlling interest	Consolidation
Portag3 II ^[1, 8]	12.4	Controlling interest	Consolidation
Sagard Credit Partners LP	18.0	Controlling interest	Consolidation
Sagard Healthcare Royalty	13.3	Controlling interest	Consolidation
Sagard Europe II	22.0	Investment	Available for sale
Sagard Europe 3	37.3	Investment	Available for sale
Sagard Europe 4	38.2	Controlling interest	Consolidation
Sagard NewGen	54.4	Controlling interest	Consolidation
Power Sustainable	100.0	Controlling interest	Consolidation
Power Pacific	100.0	Controlling interest	Consolidation
Investments	< 5.0	Investment	Available for sale
Power Energy	100.0	Controlling interest	Consolidation
Potentia	100.0	Controlling interest	Consolidation
Nautilus	100.0	Controlling interest	Consolidation
Standalone businesses			
Peak	42.6	Joint control	Equity method
Lumenpulse	60.5	Controlling interest	Consolidation
Lion	44.1	Significant influence	Equity method
GP Strategies	21.2	Significant influence	Equity method

[1] Investments held by the Corporation through Power Financial.

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

[3] Canada Life also holds a 3.9% interest in IGM.

[4] Held through Parjointco, a jointly controlled corporation (50%). Parjointco holds a controlling interest in GBL.

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

[6] Portag3 I and IGM also hold interests of 14.8% and 41.4%, respectively, in Wealthsimple (see also the section "Wealthsimple").

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

[8] Power Financial holds a 7.7% interest and Sagard Holdings holds a 4.7% interest. Lifeco and IGM also hold equal interests of 7.7% in Portag3 II.

At December 31, 2020, Parjointco's main holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
GBL	28.2	Controlling interest	Consolidation
Publicly listed			
Imerys	54.6	Controlling interest	Consolidation
SGS	18.9	Investment	Available for sale
adidas	6.8	Investment	Available for sale
Pernod Ricard	7.6	Investment	Available for sale
LafargeHolcim	7.6	Investment	Available for sale
Umicore	18.0	Investment	Available for sale
GEA	8.5	Investment	Available for sale
Ontex	20.0	Investment	Available for sale
Mowi	5.8	Investment	Available for sale
Other investments	< 5.0	Investment	Available for sale
Privately held			
Sienna Capital ^[1]	100.0	Controlling interest	Consolidation
Webhelp	61.5	Controlling interest	Consolidation
Parques	23.0	Significant influence	Equity method

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

The following table summarizes the classification of the investments held by the controlled and consolidated funds managed by the investment platforms:

Investment Fund	Classification of Investments held by the fund	Measurement
Sagard Credit Partners	Loans and receivables	Amortized cost
Sagard Healthcare Royalty Partners	Fair value through profit and loss	Fair value
Portag3 Ventures I LP ^[1]	Available for sale	Fair value
Portag3 Ventures II LP	Fair value through profit and loss	Fair value
Sagard Europe 4	Fair value through profit and loss	Fair value
Sagard NewGen	Fair value through profit and loss	Fair value

[1] Excludes investment in WealtheSimple which is controlled and consolidated by the Corporation.

This basis of presentation should be read in conjunction with the following notes to the Corporation's 2020 Consolidated Financial Statements:

- Basis of presentation and summary of significant accounting policies (Note 2);
- Investments (Note 5);
- Investments in jointly controlled corporations and associates (Note 7);
- Goodwill and intangible assets (Note 10); and
- Non-controlling interests (Note 20).

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

This MD&A presents and discusses financial measures which are not in accordance with IFRS. Management uses these financial measures in its presentation and analysis of the financial performance of Power Corporation, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. The non-IFRS financial measures used in this MD&A are defined as follows:

Non-IFRS financial measure	Definition	Purpose
Non-consolidated basis of presentation	Power Corporation's controlling interests, held through Power Financial, in Lifeco, IGM, Portag3 I, Portag3 II and Wealthsimple, as well as other subsidiaries consolidated by Power Corporation are accounted for using the equity method.	Used by the Corporation to present and analyze its results, financial position and cash flows. Presents the holding company's (parent) results separately from the results of its consolidated operating companies. As a holding company, management reviews and assesses the performance of each operating company's contribution to net earnings and adjusted net earnings. This presentation is useful to the reader to assess the impact of the contribution to earnings for each subsidiary.
Adjusted net earnings	Net earnings excluding Adjustments.	Assists in the comparison of the current period's results to those of previous periods as it reflects management's view of the operating performance of the Corporation and its subsidiaries and excludes items that are not considered to be part of the underlying business results.
Adjustments	After-tax impact of any item that in management's judgment, including those identified by management of its publicly traded operating companies, would make the period-over-period comparison of results from operations less meaningful. Includes the Corporation's share of Lifeco's impact of actuarial assumption changes and management actions, direct equity and interest rate market impacts on insurance contract liabilities net of hedging, as well as items that management believes are not indicative of the underlying business results which include those identified by a subsidiary or a jointly controlled corporation.	Identifies items that are not considered part of operating performance by management, including items identified by management of its publicly traded operating companies. The exclusion of these items assists management and the reader in assessing current results as these items are not reflective of underlying business results.
Adjusted net earnings per share	Earnings per share calculated using adjusted net earnings. Adjusted net earnings divided by the weighted average number of participating shares outstanding.	Assists in comparing adjusted net earnings on a per share basis.
Net asset value	Net asset value is the fair value of Power Corporation's non-consolidated assets less its net debt and preferred shares. The investments held in public entities (including Lifeco, IGM and GBL) are measured at their market value and investments in private entities and investment funds are measured at management's estimate of fair value.	Presents the fair value of the net assets of the holding company and is used to assist in assessing value. This measure may be used by investors and analysts in determining or comparing the fair value of investments held by the company or its overall fair value.
Net asset value per share	Net asset value calculated on a per share basis. Net asset value divided by the number of participating shares outstanding.	Assists the reader in comparing net asset value on a per share basis.

Effective the first quarter of 2020, the Corporation introduced a modified definition of its non-IFRS earnings measure, Adjusted net earnings. This change is consistent with the introduction of base earnings by Lifeco which was introduced in the first quarter of 2020 to reflect management's view of the operating performance of Lifeco. Lifeco defines base earnings (loss) as net earnings excluding the impact of actuarial assumption changes and management actions, direct equity and interest rate market impacts on insurance contract liabilities net of hedging, and items that management believes are not indicative of the company's underlying business results. The definition of Adjustments includes what the Corporation previously presented as other items and also includes Lifeco's impact of actuarial assumption changes and management actions, and direct equity and interest rate market impacts on insurance contract liabilities net of hedging. The definition of Adjustments used in Adjusted net earnings is being adopted to enhance comparability of results between reporting periods and in anticipation of Lifeco's implementation of accounting changes related to IFRS 17, *Insurance Contracts*, on January 1, 2023. The comparative periods have been restated to reflect the introduction of this modified measure.

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

RECONCILIATION OF IFRS AND NON-IFRS FINANCIAL MEASURES

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

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Net earnings – IFRS financial measure ^[1]	1,994	1,108	623	505	179
Share of Adjustments ^[2] , net of tax					
Lifeco	(76)	230	(7)	(99)	212
IGM	34	9	3	30	8
GBL ^[3]	6	37	–	2	24
Alternative and other investments	(27)	16	–	–	16
Corporate operations	8	(22)	8	–	9
Attributable to non-controlling interests of Power Financial	4	(103)	–	–	(91)
	(51)	167	4	(67)	178
Adjusted net earnings – Non-IFRS financial measure ^[1]	1,943	1,275	627	438	357

[1] Attributable to participating shareholders of Power Corporation.

[2] Refer to the section "Adjustments" for more detail on Adjustments from Lifeco, IGM, GBL, alternative and other investments and corporate operations.

[3] Previously reported by Pargesa.

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Net earnings per share – IFRS financial measure ^[1]	3.08	2.53	0.92	0.75	0.42
Share of Adjustments ^[2] , net of tax					
Lifeco	(0.11)	0.34	–	(0.15)	0.33
IGM	0.05	0.02	–	0.05	0.01
GBL ^[3]	0.01	0.05	–	–	0.03
Alternative and other investments	(0.04)	0.04	–	–	0.04
Corporate operations	0.01	(0.06)	0.01	–	0.01
	(0.08)	0.39	0.01	(0.10)	0.42
Adjusted net earnings per share – Non-IFRS financial measure ^[1]	3.00	2.92	0.93	0.65	0.84

[1] Attributable to participating shareholders of Power Corporation.

[2] Refer to the section "Adjustments" for more detail on Adjustments from Lifeco, IGM, GBL, alternative and other investments and corporate operations. Share of Adjustments on a per share basis are presented net of amounts attributable to non-controlling interests of Power Financial.

[3] Previously reported by Pargesa.

Results of Power Corporation

This section presents:

- the “Consolidated Statements of Earnings in accordance with IFRS”; and
- the “Non-Consolidated Statements of Earnings”, which present the contributions to Power Corporation of its operating subsidiaries (Lifeco and IGM) and GBL, which are held through Power Financial, and the contribution of the Corporation’s alternative and other investments and China AMC to the net earnings and adjusted net earnings of Power Corporation.

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

CHANGE IN PRESENTATION (NON-CONSOLIDATED BASIS)

The Corporation announced a Reorganization and its strategy in early 2020. The Corporation has modified the presentation of the activities held through Power Financial. Previously, Power Financial’s results including its corporate operations were presented separately by the Corporation. Subsequent to the Reorganization, the corporate operations of both the Corporation and Power Financial are being managed together and have been presented on a combined basis throughout the “Results of the Corporation” section. The investment activities of Power Financial are primarily interests held in fintech investments, all of which are managed by Sagard Holdings, and have been presented combined with the investing activities of Sagard Holdings, which represents the management and oversight structure. The comparatives in the non-consolidated earnings statements, non-consolidated balance sheets and non-consolidated statements of cash flows have been restated to reflect this change.

As well, in the second quarter of 2020, the Corporation modified the presentation of the asset management companies held by the investment platforms. Previously, the asset management activities were consolidated and included as corporate activities within the non-consolidated balance sheet of the Corporation. The activities of each asset management company are now presented within their operations. The comparatives in the non-consolidated balance sheets and non-consolidated statements of cash flows have been restated to reflect this change.

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

In May 2017, the International Accounting Standards Board (IASB) issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts* and will be applied retrospectively. In June 2020, the IASB issued amendments to IFRS 17, which include an amendment to the effective date of the standard to January 1, 2023. In addition, the IASB extended to January 1, 2023 the exemption for insurers to apply the financial instruments standard, IFRS 9, *Financial Instruments*, keeping the alignment of the effective dates for IFRS 9 and IFRS 17.

IGM, a subsidiary, and GBL, held through Parjointco, a jointly controlled corporation, do not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted but not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation decided to continue applying accounting policies in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, to GBL’s results. On consolidation, the Corporation has adjusted the results of both IGM and GBL to be in accordance with IAS 39. Refer to the specific discussion included in the IGM and GBL sections “Contribution to net earnings and adjusted net earnings”.

CONSOLIDATED STATEMENTS OF EARNINGS IN ACCORDANCE WITH IFRS

Power Corporation's consolidated statements of earnings for the twelve months and three months ended December 31, 2020 are presented below. The Corporation's reportable operating segments are Lifeco, IGM and GBL. These tables reflect the contributions to the net earnings attributable to Power Corporation's participating shareholders from its reportable operating segments and the Corporation's alternative and other investments including its investment platforms, which include controlled and consolidated investment funds and investments and its investment in China AMC.

Consolidated net earnings – Twelve months ended

	Lifeco	IGM ^[1]	GBL ^[2]	Investment Platforms and Other ^[3]	Corporate ^[4]	Effect of consolidation ^[5]	Power Corporation Consolidated net earnings	
							December 31, 2020	December 31, 2019
Revenues								
Total net premiums ^[6]	43,019	-	-	-	-	(20)	42,999	24,489
Net investment income	11,662	190	-	574	19	(299)	12,146	13,442
Fee income ^[6]	5,902	3,084	-	101	-	(145)	8,942	10,081
Other revenues	-	-	-	529	-	-	529	829
Total revenues	60,583	3,274	-	1,204	19	(464)	64,616	48,841
Expenses								
Total paid or credited to policyholders	48,487	-	-	-	-	-	48,487	33,091
Commissions	2,396	1,088	-	-	-	(45)	3,439	3,480
Operating and administrative expenses	6,344	1,148	-	1,111	175	(84)	8,694	8,341
Financing charges	284	111	-	86	55	19	555	544
Total expenses	57,511	2,347	-	1,197	230	(110)	61,175	45,456
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,072	927	-	7	(211)	(354)	3,441	3,385
Share of earnings of investments in jointly controlled corporations and associates	-	38	27	25	43	37	170	212
Earnings before income taxes	3,072	965	27	32	(168)	(317)	3,611	3,597
Income taxes	(82)	201	-	(14)	(52)	24	77	554
Net earnings	3,154	764	27	46	(116)	(341)	3,534	3,043
Attributable to								
Non-controlling interests	1,362	360	33	(59)	133	(341)	1,488	1,883
Non-participating shareholders	-	-	-	-	52	-	52	52
Participating shareholders of Power Corporation ^[5]	1,792	404	(6)	105	(301)	-	1,994	1,108
	3,154	764	27	46	(116)	(341)	3,534	3,043

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

[2] Results reported by GBL are in accordance with IFRS 9. The Corporation's share of earnings of GBL includes adjustments in accordance with IAS 39.

[3] "Investment platforms and other" is comprised of the Corporation's alternative and other investments including its investment platforms, which include consolidated investment funds, Power Energy and IntegraMed (up to the date of deconsolidation on May 20, 2020) as well as the investment activities held through Power Financial including Portag3 I, Portag3 II and Wealthsimple. On December 1, 2020, the Corporation determined that it no longer controls Koho and has deconsolidated Koho as of the date control was lost. The results of Koho have been included in Investment platforms and other up to the date of deconsolidation and includes a gain recognized on deconsolidation of \$90 million (the Corporation's share was \$71 million).

[4] "Corporate" is comprised of the corporate operations of Power Financial and the Corporation, presented on a combined basis.

[5] The results presented for Lifeco and IGM are as reported by each operating subsidiary. The "Effect of consolidation" includes the elimination of intercompany transactions and reflects adjustments in accordance with IAS 39 for IGM. The contribution from Lifeco, IGM, GBL and Investment Platforms and Other to net earnings attributable to participating shareholders of the Corporation includes the effect of consolidation.

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

Consolidated net earnings - Three months ended

	Lifeco	IGM ^[1]	GBL ^[2]	Investment Platforms and Other ^[3]	Corporate ^[4]	Effect of consolidation ^[5]	Power Corporation Consolidated net earnings		
							December 31, 2020	September 30, 2020	December 31, 2019
Revenues									
Total net premiums	11,747	-	-	-	-	(5)	11,742	9,971	9,472
Net investment income	3,544	63	-	341	19	(204)	3,763	2,334	(225)
Fee income	1,569	814	-	26	-	(44)	2,365	2,259	2,285
Other revenues	-	-	-	84	-	-	84	118	197
Total revenues	16,860	877	-	451	19	(253)	17,954	14,682	11,729
Expenses									
Total paid or credited to policyholders	13,555	-	-	-	-	-	13,555	10,668	7,769
Commissions	657	288	-	-	-	(13)	932	812	918
Operating and administrative expenses	1,819	284	-	359	49	(18)	2,493	2,166	2,189
Financing charges	79	28	-	16	14	4	141	137	133
Total expenses	16,110	600	-	375	63	(27)	17,121	13,783	11,009
Earnings before investments in jointly controlled corporations and associates, and income taxes	750	277	-	76	(44)	(226)	833	899	720
Share of earnings of investments in jointly controlled corporations and associates	-	13	(45)	19	13	(1)	(1)	48	34
Earnings before income taxes	750	290	(45)	95	(31)	(227)	832	947	754
Income taxes	(183)	61	-	(9)	(29)	13	(147)	49	184
Net earnings	933	229	(45)	104	(2)	(240)	979	898	570
Attributable to									
Non-controlling interests	413	96	-	41	33	(240)	343	380	378
Non-participating shareholders	-	-	-	-	13	-	13	13	13
Participating shareholders of Power Corporation ^[5]	520	133	(45)	63	(48)	-	623	505	179
	933	229	(45)	104	(2)	(240)	979	898	570

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

[2] Results reported by GBL are in accordance with IFRS 9. The Corporation's share of earnings of GBL includes adjustments in accordance with IAS 39.

[3] "Investment platforms and other" is comprised of the Corporation's alternative and other investments including its investment platforms, which include consolidated investment funds, Power Energy and IntegraMed (up to the date of deconsolidation on May 20, 2020) as well as the investment activities held through Power Financial including Portag3 I, Portag3 II and Wealthsimple. On December 1, 2020, the Corporation determined that it no longer controls Koho and has deconsolidated Koho as of the date control was lost. The results of Koho have been included in Investment platforms and other up to the date of deconsolidation and includes a gain recognized on deconsolidation of \$90 million (the Corporation's share was \$71 million).

[4] "Corporate" is comprised of the corporate operations of Power Financial and the Corporation, presented on a combined basis.

[5] The results presented for Lifeco and IGM are as reported by each operating subsidiary. The "Effect of consolidation" includes the elimination of intercompany transactions and reflects adjustments in accordance with IAS 39 for IGM. The contribution from Lifeco, IGM, GBL and Investment Platforms and Other to net earnings attributable to participating shareholders of the Corporation includes the effect of consolidation.

As a holding company, the Corporation evaluates the performance of each segment based on its contribution to net earnings and adjusted net earnings. A discussion of the results of Lifeco, IGM and GBL is provided in the section "Contribution to net earnings and adjusted net earnings" below.

NON-CONSOLIDATED STATEMENTS OF EARNINGS

In this section, the contributions from Lifeco and IGM to the net earnings and adjusted net earnings attributable to Power Corporation's participating shareholders are accounted for using the equity method. The contribution to the Corporation's net earnings and adjusted net earnings include the contributions from GBL, and the Corporation's alternative and other investments including investment platforms, which include controlled and consolidated investments accounted for using the equity method, and China AMC. The corporate operations from Power Financial and Power Corporation are presented on a combined basis.

Contribution to adjusted and net earnings

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Adjusted net earnings ^[1]					
Lifeco ^[2]	1,784	1,814	495	454	556
IGM ^[2]	474	473	127	133	125
GBL ^[2]	89	181	16	(15)	51
Effect of consolidation ^[3]	(67)	33	(34)	(54)	(3)
	2,280	2,501	604	518	729
Alternative and other investments ^[4]	90	(18)	78	(14)	(35)
China AMC	42	30	12	11	7
Corporate operating and other expenses	(164)	(246)	(20)	(30)	(61)
Dividends on non-participating and perpetual preferred shares	(189)	(191)	(47)	(47)	(48)
Non-controlling interests of Power Financial	(116)	(801)	-	-	(235)
	1,943	1,275	627	438	357
Adjustments ^[5]					
Lifeco	76	(230)	7	99	(212)
IGM	(34)	(9)	(3)	(30)	(8)
GBL	(6)	(37)	-	(2)	(24)
Alternative and other investments	27	(16)	-	-	(16)
Corporate operations	(8)	22	(8)	-	(9)
Non-controlling interests of Power Financial	(4)	103	-	-	91
	51	(167)	(4)	67	(178)
Net earnings ^[6]	1,994	1,108	623	505	179

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

[2] As reported by Lifeco, IGM and GBL.

[3] See table below for details on Effect of consolidation.

[4] Includes earnings of the Corporation's investment platforms including investments held through Power Financial and earnings (losses) from Power Energy and standalone businesses which include IntegraMed (up to the date of deconsolidation on May 20, 2020).

[5] See "Adjustments" section below.

[6] Attributable to participating shareholders.

Contribution to adjusted and net earnings per share

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Adjusted net earnings per share – basic					
Lifeco ^[1]	2.65	2.67	0.73	0.67	0.84
IGM ^[1]	0.71	0.70	0.19	0.20	0.18
GBL ^[1]	0.14	0.27	0.02	(0.02)	0.08
Effect of consolidation ^[2]	(0.16)	0.05	(0.05)	(0.09)	–
	3.34	3.69	0.89	0.76	1.10
Alternative and other investments ^[3]	0.14	(0.03)	0.12	(0.02)	(0.08)
China AMC	0.06	0.07	0.02	0.02	0.02
Corporate operating and other expenses and dividends on non-participating and perpetual preferred shares	(0.54)	(0.81)	(0.10)	(0.11)	(0.20)
	3.00	2.92	0.93	0.65	0.84
Adjustments^[4]					
Lifeco	0.11	(0.34)	–	0.15	(0.33)
IGM	(0.05)	(0.02)	–	(0.05)	(0.01)
GBL	(0.01)	(0.05)	–	–	(0.03)
Alternative and other investments	0.04	(0.04)	–	–	(0.04)
Corporate operations	(0.01)	0.06	(0.01)	–	(0.01)
	0.08	(0.39)	(0.01)	0.10	(0.42)
Net earnings per share^[5]	3.08	2.53	0.92	0.75	0.42

[1] As reported by Lifeco, IGM and GBL. For a reconciliation of Lifeco, IGM and GBL's non-IFRS adjusted net earnings per share to their net earnings per share, refer to the section "Contribution to net earnings and adjusted net earnings" below.

[2] See table below for details on Effect of consolidation.

[3] Includes earnings of the Corporation's investment platforms including investments held through Power Financial and earnings (losses) from Power Energy and standalone businesses which include IntegraMed (up to the date of deconsolidation on May 20, 2020).

[4] See "Adjustments" section below.

[5] Attributable to participating shareholders.

Effect of consolidation reflects:

- The elimination of intercompany transactions;
- The application of the Corporation's accounting treatment of commonly held investments to the reported net earnings of the publicly traded operating companies, which include an allocation of the results of the fintech portfolio including Wealthsimple, Koho, Portag3 I and Portag3 II, to the contributions from Lifeco and IGM based on their respective interest; and
- Adjustments in accordance with IAS 39 for IGM and GBL.

The following table summarizes the effect of consolidation by nature for Lifeco, IGM and GBL:

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Lifeco					
Allocation of fintech portfolio and other ^[1]	8	(5)	18	(7)	(3)
IGM					
Allocation of fintech portfolio ^[1]	(30)	(29)	13	(34)	(10)
Adjustment to include gain on Personal Capital in Adjusted net earnings	19	-	-	19	-
Adjustments in accordance with IAS 39 and other	(8)	18	(4)	(4)	5
	(19)	(11)	9	(19)	(5)
GBL					
Adjustments in accordance with IAS 39 and other	(56)	49	(61)	(28)	5
	(67)	33	(34)	(54)	(3)
Non-controlling interests of Power Financial	(32)	(14)	-	-	1
	(99)	19	(34)	(54)	(2)
Per share	(0.16)	0.05	(0.05)	(0.09)	-

[1] The third quarter of 2020 includes a charge of \$36 million related to the allocation of the remeasurement of the put right liability of the non-controlling interests in Wealthsimple to fair value and carried interest payable.

2020 vs. 2019	Q4 2020 vs. Q4 2019 and Q3 2020
Net earnings \$1,994 million or \$3.08 per share, compared with \$1,108 million or \$2.53 per share in the corresponding period in 2019, an increase of 21.7% on a per share basis.	\$623 million or \$0.92 per share, compared with \$179 million or \$0.42 per share in the corresponding period in 2019, and \$505 million or \$0.75 per share in the third quarter of 2020.
Adjusted net earnings \$1,943 million or \$3.00 per share, compared with \$1,275 million or \$2.92 per share in the corresponding period in 2019, an increase of 2.7% on a per share basis.	\$627 million or \$0.93 per share, compared with \$357 million or \$0.84 per share in the corresponding period in 2019, an increase of 10.7% on a per share basis, and \$438 million or \$0.65 per share in the third quarter of 2020.
Contribution to net earnings and adjusted net earnings from Lifeco, IGM and GBL	
Contribution to net earnings of \$2,312 million, compared with \$2,325 million in the corresponding period in 2019.	Contribution to net earnings of \$608 million, compared with \$573 million in the corresponding period in 2019, an increase of 6.1%, and \$585 million in the third quarter of 2020.
Contribution to adjusted net earnings of \$2,280 million, compared with \$2,501 million in the corresponding period in 2019, a decrease of 8.8%.	Contribution to adjusted net earnings of \$604 million, compared with \$729 million in the corresponding period in 2019, a decrease of 17.1%, and \$518 million in the third quarter of 2020.

A discussion of the results of the Corporation is provided in the sections "Contribution to net earnings and adjusted net earnings", "Alternative and other investments", "China AMC", "Corporate operations", and "Adjustments" below.

CONTRIBUTION TO NET EARNINGS AND ADJUSTED NET EARNINGS

The reportable operating segments of Power Corporation are Lifeco, IGM and GBL.

LIFECO**Contribution to Power Corporation**

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Contribution to Power Corporation's ^[1] :					
Adjusted net earnings					
As reported by Lifeco	1,784	1,814	495	454	556
Effect of consolidation	8	(5)	18	(7)	(3)
	1,792	1,809	513	447	553
Adjustments ^[2]	76	(230)	7	99	(212)
Non-controlling interests of Power Financial	(76)	(561)	-	-	(124)
Net earnings	1,792	1,018	520	546	217

[1] Power Financial's average direct ownership in Lifeco was 66.9% for the year ended December 31, 2020 (67.1% in the corresponding period in 2019). The contributions to earnings from Power Financial for the periods prior and subsequent to the Reorganization are based on ownership of Power Financial of 64.1% and 100%, respectively (average direct ownership was 64.5% in the corresponding twelve-month period in 2019).

[2] Excludes the gain recognized by Lifeco on the sale of GLC, see "Adjustments" section below.

Adjusted and net earnings per share as reported by Lifeco

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Adjusted net earnings per share ^[1, 2]	2.878	2.859	0.799	0.732	0.895
Adjustments ^[3]	0.295	(0.365)	0.184	0.159	(0.343)
Net earnings per share ^[1]	3.173	2.494	0.983	0.891	0.552

[1] Attributable to Lifeco common shareholders.

[2] Described as "base earnings per common share" by Lifeco; refer to Part B of this MD&A. Effective the first quarter of 2020, Lifeco introduced an enhanced non-IFRS earnings measure to reflect management's view of the operating performance of Lifeco. The measure – base earnings (loss) – is being adopted to enhance comparability of results between reporting periods and in anticipation of the implementation of accounting changes related to IFRS 17, *Insurance Contracts*, on January 1, 2023. The comparative periods have been adjusted to reflect this change.

[3] See "Adjustments" section below.

Adjusted and net earnings (loss) as reported by Lifeco

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Adjusted net earnings (loss) ^[1, 2, 3]					
Canada	1,206	1,178	348	270	274
United States	273	350	90	83	89
Europe	688	796	195	182	317
Capital and Risk Solutions	536	401	124	156	157
Lifeco Corporate	(34)	(21)	(16)	(12)	(6)
	2,669	2,704	741	679	831
Adjustments ^[4, 5]					
Actuarial assumption changes and other management actions	113	170	(23)	66	(78)
Market-related impacts on liabilities	(127)	(89)	(31)	18	(13)
Net gain (charge) on business dispositions	237	(191)	143	94	8
Transaction costs related to the acquisitions of Personal Capital and MassMutual	(78)	-	(47)	(31)	-
Revaluation of a deferred tax asset	196	(199)	196	-	(199)
Restructuring and integration costs	(67)	(36)	(67)	-	(36)
	274	(345)	171	147	(318)
Net earnings (loss) ^[1, 3]					
Canada	1,070	1,051	300	266	188
United States	380	(61)	208	89	(121)
Europe	913	1,004	253	316	335
Capital and Risk Solutions	614	386	167	167	117
Lifeco Corporate	(34)	(21)	(16)	(12)	(6)
Net earnings ^[1]	2,943	2,359	912	826	513

[1] Attributable to Lifeco common shareholders.

[2] Described as "base earnings" by Lifeco; refer to Part B of this MD&A.

[3] Effective January 1, 2020, as a result of strategic operational changes, Lifeco has divided the previously reported Europe segment into two separate reporting segments – Europe and Capital and Risk Solutions. Lifeco's other reportable segments – Canada, United States and Lifeco Corporate – are unchanged. Comparative figures have been reclassified to reflect the new composition of the reportable segments.

[4] Described as "items excluded from base earnings" by Lifeco; refer to Part B of this MD&A.

[5] See "Adjustments" section below.

Net earnings (loss) by segment as reported by Lifeco

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Canada^[1]					
Individual Customer	317	431	(9)	119	87
Group Customer	667	632	189	134	114
Canada Corporate	86	(12)	120	13	(13)
	1,070	1,051	300	266	188
United States^[1]					
Financial Services ^[2]	286	278	62	112	100
Asset Management	18	33	35	13	18
U.S. Corporate	76	(236)	111	(36)	(239)
Reinsured Insurance & Annuity Business ^[2]	-	(136)	-	-	-
	380	(61)	208	89	(121)
Europe^[1]					
United Kingdom	423	566	156	67	206
Ireland	335	279	54	196	88
Germany	168	160	47	56	35
Europe Corporate	(13)	(1)	(4)	(3)	6
	913	1,004	253	316	335
Capital and Risk Solutions^[1]					
Reinsurance	621	397	171	168	128
Capital and Risk Solutions Corporate	(7)	(11)	(4)	(1)	(11)
	614	386	167	167	117
Lifeco Corporate^[1]	(34)	(21)	(16)	(12)	(6)
Net earnings^[3]	2,943	2,359	912	826	513

[1] Effective January 1, 2020, as a result of strategic operational changes, Lifeco has divided the previously reported Europe segment into two separate reporting segments – Europe and Capital and Risk Solutions. Lifeco's other reportable segments – Canada, United States and Lifeco Corporate – are unchanged. Comparative figures have been reclassified to reflect the new composition of the reportable segments.

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

[3] Attributable to Lifeco common shareholders.

2020 vs. 2019	Q4 2020 vs. Q4 2019 and Q3 2020
Net earnings \$2,943 million or \$3.173 per share, compared with \$2,359 million or \$2.494 per share in the corresponding period in 2019, an increase of 27.2% on a per share basis.	\$912 million or \$0.983 per share, compared with \$513 million or \$0.552 per share in the corresponding period in 2019, an increase of 78.1% on a per share basis, and \$826 million or \$0.891 per share in the third quarter of 2020.
Adjusted net earnings \$2,669 million or \$2.878 per share, compared with \$2,704 million or \$2.859 per share in the corresponding period in 2019, an increase of 0.7% on a per share basis.	\$741 million or \$0.799 per share, compared with \$831 million or \$0.895 per share in the corresponding period in 2019, a decrease of 10.7% on a per share basis, and \$679 million or \$0.732 per share in the third quarter of 2020.

CANADA

Net earnings in the twelve-month period ended December 31, 2020 increased by \$19 million to \$1,070 million, compared with the corresponding period in 2019. Adjusted net earnings were \$1,206 million in the twelve-month period ended December 31, 2020, and excluded Adjustments of \$136 million as discussed below, compared with \$1,178 million in the corresponding period in 2019. Adjustments in the corresponding period in 2019 were \$127 million.

Net earnings in the three-month period ended December 31, 2020 increased by \$112 million to \$300 million, compared with the corresponding quarter in 2019. Adjusted net earnings were \$348 million in the three-month period ended December 31, 2020, and excluded Adjustments of \$48 million as discussed below, compared with \$274 million in the corresponding quarter in 2019. Adjustments in the corresponding period in 2019 were \$86 million.

Individual Customer

Net earnings in the twelve-month period ended December 31, 2020 decreased by \$114 million to \$317 million, compared with the same period last year. The decrease was primarily due to:

- Higher unfavourable impacts of insurance contract liability basis changes;
- Unfavourable market-related impacts, primarily driven by the impact of the equity market declines and volatility in the first quarter of 2020 on segregated fund guarantees and their related hedging ineffectiveness; and
- Lower net fee income, lower impact of new business driven by lower interest rates and unfavourable morbidity experience;
- Partially offset by favourable mortality and policyholder behaviour experience.

Net earnings in the three-month period ended December 31, 2020 decreased by \$96 million to a loss of \$9 million, compared with the same quarter last year. The decrease was primarily due to:

- Unfavourable impact of insurance contract liability basis changes. Insurance contract liability basis changes in 2020 include the unfavourable impact of updates to policyholder behaviour assumptions and certain investment-related assumptions, partially offset by favourable impact of updates to morbidity assumptions;
- Unfavourable market-related impacts; and
- Lower net fee income and the impact of changes to certain tax estimates;
- Partially offset by favourable policyholder behaviour experience.

Group Customer

Net earnings in the twelve-month period ended December 31, 2020 increased by \$35 million to \$667 million, compared with the same period last year, primarily due to favourable morbidity experience and higher tax benefits, partially offset by lower contributions from investment experience and unfavourable impacts of insurance contract liability basis changes.

Net earnings in the three-month period ended December 31, 2020 increased by \$75 million to \$189 million, compared with the same quarter last year, primarily due to favourable morbidity experience, as well as lower unfavourable impacts of insurance contract liability basis changes, partially offset by lower contributions from investment experience.

UNITED STATES

Net earnings in the twelve-month period ended December 31, 2020 increased by \$441 million to \$380 million, compared with the corresponding period in 2019. Adjusted net earnings were \$273 million in the twelve-month period ended December 31, 2020, and excluded Adjustments of a positive earnings impact of \$107 million as discussed below, compared with \$350 million in the corresponding period in 2019. Adjustments in the corresponding period in 2019 were \$411 million.

Net earnings in the three-month period ended December 31, 2020 increased by \$329 million to \$208 million, compared with the corresponding quarter in 2019. Adjusted net earnings were \$90 million in the three-month period ended December 31, 2020, and excluded Adjustments of a positive earnings impact of \$118 million as discussed below, compared with \$89 million in the corresponding quarter in 2019. Adjustments in the corresponding period in 2019 were \$210 million.

Financial Services

For the twelve-month period ended December 31, 2020, net earnings were US\$213 million (C\$286 million), compared with US\$211 million (C\$278 million) in the same period last year. The increase of US\$2 million was primarily due to:

- Higher contributions from investment experience and net business growth; and
- Higher contributions from insurance contract liability basis changes.

Partially offset by:

- Personal Capital related net loss of US\$12 million; and
- Less favourable mortality experience as well as market volatility creating hedge ineffectiveness losses related to guaranteed lifetime withdrawal benefits and integration costs.

In addition, included in the twelve months ended December 31, 2019 was the positive impact of a partial settlement of an employee pension plan.

For the three-month period ended December 31, 2020, net earnings were US\$47 million (C\$62 million), compared with US\$76 million (C\$100 million) in the same quarter last year. The decrease of US\$29 million was primarily due to:

- Personal Capital related net loss of US\$7 million;
- Lower contributions from investment experience; and
- Integration costs, refer to discussion in the "Adjustments" section below;
- Partially offset by net business growth.

In addition, included in the fourth quarter of 2019 was the positive impact of a partial settlement of an employee pension plan.

Asset Management

For the twelve-month period ended December 31, 2020, net earnings were US\$14 million (C\$18 million), compared with net earnings of US\$24 million (C\$33 million) in the same period last year. The decrease of US\$10 million was primarily due to higher sales- and compensation-related expenses, partially offset by higher performance fee income. Net earnings in 2020 includes financing and other expenses of US\$37 million (C\$50 million), compared with US\$35 million (C\$45 million) in the same quarter last year. Financing and other expenses increased by US\$2 million, primarily due to allocated expenses from affiliates, partially offset by lower financing costs.

For the three-month period ended December 31, 2020, net earnings were US\$26 million (C\$35 million), compared with net earnings of US\$13 million (C\$18 million) in the same quarter last year. The increase of US\$13 million was primarily due to higher performance fee income and net investment income. Net earnings in the fourth quarter of 2020 includes financing and other expenses of US\$11 million (C\$14 million), compared with US\$8 million (C\$10 million) in the same quarter last year. Financing and other expenses increased by US\$3 million, primarily due to allocated expenses from affiliates.

Reinsured Insurance & Annuity Business

For the twelve-month period ended December 31, 2020, there was no earnings impact, compared with a net loss of US\$101 million (C\$136 million) for the same period last year. Following the sale, via indemnity reinsurance, to Protective Life in 2019, there were no additional sales, fee and other income and net earnings related to this business unit.

EUROPE

Net earnings in the twelve-month period ended December 31, 2020 decreased by \$91 million to \$913 million, compared with the corresponding period in 2019. Adjusted net earnings in the twelve-month period ended December 31, 2020 were \$688 million, and excluded Adjustments discussed below of a positive earnings impact of \$225 million, compared with \$796 million in the corresponding period in 2019. Adjustments in the corresponding period in 2019 were a positive earnings impact of \$208 million.

Net earnings in the three-month period ended December 31, 2020 decreased by \$82 million to \$253 million, compared with the corresponding quarter in 2019. Adjusted net earnings in the three-month period ended December 31, 2020 were \$195 million, and excluded Adjustments discussed below of a positive earnings impact of \$58 million, compared with \$317 million in the corresponding quarter in 2019. Adjustments in the corresponding period in 2019 were a positive earnings impact of \$18 million.

United Kingdom

Net earnings in the twelve-month period ended December 31, 2020 decreased by \$143 million to \$423 million, compared with the same period last year. The decrease was primarily due to:

- Lower contributions from insurance contract liability basis changes; and
- Lower impact of new business, unfavourable group mortality experience and lower contributions from investment experience.

Partially offset by:

- Favourable group morbidity and longevity experience; and
- Lower unfavourable market-related impacts related to changes to certain tax estimates driven by equity market declines in 2020.

In addition, the twelve months ended December 31, 2019 included the positive impact of the resolution of an outstanding issue with a foreign tax authority.

Net earnings in the three-month period ended December 31, 2020 decreased by \$50 million to \$156 million, compared with the same quarter last year. The decrease was primarily due to:

- Positive impact of the resolution of an outstanding issue with a foreign tax authority in the fourth quarter of 2019; and
- Unfavourable group mortality experience.

Partially offset by:

- Higher impact of new business; and
- Favourable group morbidity and longevity experience as well as higher contributions from insurance contract liability basis changes.

Ireland

Net earnings were \$335 million in the twelve-month period ended December 31, 2020, compared with net earnings of \$279 million for the same period last year. The increase of \$56 million was primarily due to:

- Favourable mortality and morbidity experience; and
- Net gain of \$94 million on the sale of IPSI.

Partially offset by:

- Lower impact of new business, higher expenses as well as less favourable contributions from insurance contract liability basis changes; and
- Unfavourable market-related impacts related to unhedged market movements in the first quarter of 2020. Market impacts are primarily driven by the impact of the equity market declines and volatility and lower interest rates in the first quarter of 2020 on segregated fund guarantees.

Net earnings were \$54 million in the three-month period ended December 31, 2020, compared with net earnings of \$88 million for the same quarter last year. The decrease of \$34 million was primarily due to:

- Unfavourable contributions from insurance contract liability basis changes; and
- Lower contributions from investment experience, less favourable mortality and expense experience and lower impact of new business;
- Partially offset by favourable morbidity experience.

Germany

Net earnings in the twelve-month period ended December 31, 2020 increased by \$8 million to \$168 million, compared with the same period last year. The increase was primarily due to the impact of changes to certain tax estimates and higher impact of new business, partially offset by the unfavourable equity market impacts related to variable annuity guarantees and related hedge ineffectiveness.

Net earnings in the three-month period ended December 31, 2020 increased by \$12 million to \$47 million, compared with the same quarter last year, primarily due to favourable contributions from insurance contract liability basis changes, higher impact of new business and lower expenses.

CAPITAL AND RISK SOLUTIONS**Reinsurance**

Net earnings in the twelve-month period ended December 31, 2020 increased by \$224 million to \$621 million, compared with the same period last year. The increase was primarily due to favourable longevity experience, higher business volumes and higher contributions from insurance contract liability basis changes, partially offset by new business strain and less favourable claims experience in the life business.

Net earnings in the three-month period ended December 31, 2020 increased by \$43 million to \$171 million, compared with the same quarter last year. The increase was primarily due to higher contributions from insurance contract liability basis changes and favourable longevity experience, partially offset by new business strain in the fourth quarter of 2020, compared with new business gains in the fourth quarter of 2019, and unfavourable claims experience in the life business.

ADJUSTMENTS

Adjustments are items excluded from net earnings in the determination of adjusted net earnings by Lifeco's management.

In 2020, Adjustments of a positive earnings impact of \$274 million consisted of:

- Actuarial assumption changes and other management actions had a positive impact of \$113 million.
- During the fourth quarter of 2020, the negative impact was \$23 million. In Canada, net earnings were negatively impacted by \$147 million, primarily due to updated policyholder behaviour and economic and asset-related assumptions, partially offset by updated life mortality assumptions. In Europe, net earnings were positively impacted by \$78 million, primarily due to updated annuitant mortality assumptions, partially offset by updated economic and asset-related assumptions. In Capital and Risk Solutions, net earnings were positively impacted by \$43 million, primarily due to updated economic and annuitant mortality assumptions, partially offset by updated expense assumptions. In the United States, net earnings were positively impacted by \$3 million, primarily due to updated annuitant mortality assumptions.
- During the third quarter of 2020, the net positive impact was \$66 million. In the United States, net earnings were positively impacted by \$38 million, primarily due to updated economic assumptions. In Europe, net earnings were positively impacted by \$22 million, primarily due to updated policyholder behaviour assumptions. In Canada, net earnings were positively impacted by \$4 million. In Capital and Risk Solutions, net earnings were positively impacted by \$2 million, primarily due to updated annuitant mortality and modelling refinements, partially offset by updated life mortality and policyholder behaviour assumptions.
- During the second quarter of 2020, Lifeco updated economic assumptions following in-quarter equity market recoveries which had a positive impact of \$98 million. Updated economic assumptions on Canadian real estate returns had a negative impact of \$33 million. In addition, updates to mortality and morbidity assumptions and modelling refinements had a net positive impact of \$57 million. The net impact in the second quarter was a net positive impact of \$122 million.
- During the first quarter of 2020, Lifeco updated economic assumptions related to in-quarter market impacts which had a negative impact of \$98 million, partially offset by updates to modelling refinements, other economic assumptions and morbidity assumptions which had a positive impact of \$46 million, resulting in a net negative impact of \$52 million on net earnings.

- Market-related impacts on liabilities had a negative impact of \$127 million.
 - Negative market-related impacts were \$31 million in the fourth quarter of 2020, primarily related to an unfavourable impact of changes to certain tax estimates driven by equity market recovery in the fourth quarter of 2020 as well as the valuation of insurance contract liabilities which are supported by equities and real estate driven by lower markets earlier in the year. Included in the total negative impact of \$31 million in the fourth quarter of 2020 was a positive impact of \$7 million related to legacy block segregated fund guarantee business.
 - Positive market-related impacts were \$18 million in the third quarter of 2020, primarily reflecting the equity market recoveries in the quarter which impacted the value of segregated fund and variable annuity guarantees, including related hedging ineffectiveness, as well as the valuation of insurance contract liabilities which are supported by equities and real estate. Included in the total positive impact of \$18 million in the third quarter of 2020 was a positive impact of \$13 million related to legacy block segregated fund guarantee business.
 - Positive market-related impacts were \$35 million in the second quarter of 2020, primarily reflecting the impact of equity market recoveries in the quarter which impacted the value of segregated fund and variable annuity guarantees, including related hedging ineffectiveness, as well as the valuation of insurance contract liabilities which are supported by equities and real estate. Included in the total positive impact of \$35 million in the second quarter of 2020 was a positive impact of \$45 million related to legacy blocks of segregated fund guarantee business.
 - Negative market-related impacts were \$149 million in the first quarter of 2020, reflecting the unfavourable impacts of a decline in equity markets and interest rates in-period which impacted the value of segregated fund and variable annuity guarantees, including related hedging ineffectiveness, as well as the valuation of insurance contract liabilities which are supported by equities and real estate. Of the \$149 million total impact, \$68 million related to legacy blocks of segregated fund guarantee business.
- Net gain on business dispositions of \$237 million:
 - In the fourth quarter Lifeco recognized a net gain of \$143 million related to the sale of GLC Asset Management Group Ltd., net of restructuring costs of \$16 million after tax. The Corporation will continue to consolidate GLC as it was acquired by IGM, and therefore the transaction has no impact on the consolidated statements of earnings and balance sheets. The Corporation has eliminated the gain recognized by Lifeco of \$159 million on consolidation. In the third quarter, Lifeco recognized a net gain of \$94 million related to the sale of IPSI.
- Revaluation of a deferred tax asset of \$196 million (US\$151 million) in the fourth quarter of 2020:
 - As a result of the acquisitions in the United States segment of the retirement services business of MassMutual and Personal Capital in 2020, Lifeco revised its estimates of future taxable profits and recognized a deferred tax asset that had previously been derecognized in the fourth quarter of 2019. The deferred income tax asset revaluation resulted in a \$196 million recovery to income tax expense;
- Transaction costs of \$78 million:
 - Lifeco recognized transaction costs related to the acquisitions of Personal Capital and the retirement services business of MassMutual of which \$31 million were recognized in the third quarter and \$47 million in the fourth quarter of 2020; and
- Restructuring and integration costs of \$67 million recognized in the fourth quarter of 2020:
 - Lifeco recognized restructuring and integration costs related to the acquisition of Personal Capital and the retirement services business of MassMutual as well as strategic initiatives in the Canadian segment. In the fourth quarter, Lifeco announced two initiatives impacting the Canada segment operations including changes to its Canadian distribution strategy and vision for advisor-based distribution, and IGM Financial, an affiliate of Lifeco, notified Lifeco of its intent to terminate its long-term technology infrastructure-related sharing agreement with Lifeco in the first quarter of 2021. These initiatives, together with the sale of GLC, will result in staff reductions, exit costs for certain facilities' lease agreements and decommissioning activities related to technology and other assets. Changes relating to these initiatives are expected to be fully implemented by the end of 2022

In 2019, Adjustments of \$345 million consisted of:

- In the fourth quarter of 2019, Adjustments were \$318 million which consisted of \$78 million related to actuarial assumption changes and management actions and negative market-related impacts of \$13 million. The fourth quarter of 2019 also included Adjustments for the revaluation of a deferred tax asset which resulted in a charge of \$199 million (US\$151 million) recorded in the Corporate business unit of the U.S. segment, and restructuring costs of \$36 million related to actions undertaken by Putnam to realign its resources to better position itself for current and future opportunities, offset by a net gain of \$8 million on the Scottish Friendly transaction recorded in the Corporate business unit of the Europe segment.
- In the third quarter of 2019, Adjustments were a positive earnings impact of \$53 million which consisted of a positive earnings impact of \$81 million related to actuarial assumption changes and management actions, offset by negative market-related impacts of \$28 million.
- In the second quarter of 2019, Adjustments were \$168 million which consisted of a positive earnings impact of \$38 million related to actuarial assumption changes and management actions, offset by negative market-related impacts of \$7 million, and a net loss on the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life of \$199 million.
- In the first quarter of 2019, Adjustments were a positive earnings impact of \$88 million which related to actuarial assumption changes and management actions of \$129 million, offset by negative market-related impacts of \$41 million.

The information above has been derived from Lifeco's annual MD&A; see Part B of this MD&A for additional information on Lifeco's results.

IGM FINANCIAL

Contribution to Power Corporation

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Contribution to Power Corporation's ^[1] :					
Adjusted net earnings					
As reported by IGM	474	473	127	133	125
Effect of consolidation ^[2, 3]	(19)	(11)	9	(19)	(5)
	455	462	136	114	120
Adjustments ^[3]	(34)	(9)	(3)	(30)	(8)
Non-controlling interests of Power Financial	(17)	(162)	-	-	(39)
Net earnings	404	291	133	84	73

[1] Power Financial's average direct ownership in IGM was 62.1% for the year ended December 31, 2020 (61.9% in the corresponding period in 2019). The contributions to earnings from Power Financial for the periods prior and subsequent to the Reorganization are based on ownership of Power Financial of 64.1% and 100%, respectively (average direct ownership was 64.5% in the corresponding twelve-month period in 2019).

[2] Contribution to Power Corporation includes adjustments made by Power Financial in accordance with IAS 39 and the allocation of the results of Wealthsimple, Portag3 I and Portag3 II. In the third quarter of 2020, the adjustment mainly relates to the allocation of the remeasurement of the put right liability of the non-controlling interests in Wealthsimple to fair value and an increase in carried interest payable. This charge was partially offset by IGM's gain on Personal Capital which the Corporation has not included as an Adjustment. In the first quarter of 2019, IGM attained significant influence over Personal Capital, and reclassified its investment from available for sale to an associate, which resulted in a gain in accordance with IAS 39. The contribution to Power Corporation was adjusted to include the Corporation's share of this gain.

[3] Includes IGM's share of Lifeco's Adjustments for the impact of actuarial assumption changes and management actions and market impacts on insurance contract liabilities, in accordance with the Corporation's definition of Adjusted net earnings. Refer to the section "Non-IFRS Financial Measures and Presentation". Excludes the Corporation's share of IGM's Adjustments related to the gain on disposal of Personal Capital in the third quarter as well as the gain recognized by IGM on the sale of the QGOF in the fourth quarter, see "Adjustments" section below.

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

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Adjusted net earnings per share ^[1]	3.20	3.19	0.86	0.90	0.84
Adjustments ^[2, 3]	0.01	(0.07)	0.10	(0.10)	(0.04)
Net earnings per share^[1]	3.21	3.12	0.96	0.80	0.80

[1] Available to IGM common shareholders.

[2] See "Adjustments" section below.

[3] Described as "Other items" by IGM, refer to Part C of this MD&A.

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

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Wealth Management ^[1]	702	745	189	187	201
Asset Management ^[1]	234	222	60	71	53
Strategic Investments and Other ^[1]	149	127	40	43	34
Adjusted net earnings (before interest, income taxes, preferred share dividends and other) ^[2]	1,085	1,094	289	301	288
Interest expense, income taxes, preferred share dividends and other ^[3]	(322)	(330)	(84)	(87)	(87)
Adjusted net earnings ^[4]	763	764	205	214	201
Adjustments ^[5, 6]	1	(17)	24	(23)	(9)
Net earnings^[4]	764	747	229	191	192

[1] In the third quarter of 2020, IGM realigned its reportable segments to better characterize IGM's business lines and improve transparency into the key drivers of its business. IGM has realigned the previously reported IG Wealth Management, Mackenzie Investments and Corporate and Other segments into three segments so that financial reporting characterizes its distinct business lines. The realigned segments include: Wealth Management, Asset Management and Strategic Investments and Other. Comparative figures have been reclassified to reflect the new composition of the reportable segments.

[2] Non-IFRS financial measure described in Part C of this MD&A.

[3] Interest expense includes interest on long-term debt and interest on leases.

[4] Available to IGM common shareholders.

[5] IGM does not allocate Adjustments to segments.

[6] Described as "Other items" by IGM, refer to Part C of this MD&A.

2020 vs. 2019

Q4 2020 vs. Q4 2019 and Q3 2020

Net earnings

\$764 million or \$3.21 per share, compared with \$747 million or \$3.12 per share in the corresponding period in 2019, an increase of 2.9% on a per share basis.

\$229 million or \$0.96 per share, compared with \$192 million or \$0.80 per share in the corresponding period in 2019, an increase of 20.0% on a per share basis, and \$191 million or \$0.80 per share in the third quarter of 2020.

Adjusted net earnings

\$763 million or \$3.20 per share, compared with \$764 million or \$3.19 per share in the corresponding period in 2019, an increase of 0.3% on a per share basis.

\$205 million or \$0.86 per share, compared with \$201 million or \$0.84 per share in the corresponding period in 2019, an increase of 2.4% on a per share basis, and \$214 million or \$0.90 per share in the third quarter of 2020.

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

In January 2019, IGM invested a further \$67 million (US\$50 million) in Personal Capital which increased its voting interest to 22.7%. As of January 2019, IGM had significant influence and accounted for its interest as an associate using the equity method. In accordance with IFRS 9, IGM previously classified its interest in Personal Capital as fair value through other comprehensive income (FVOCI), in which fair value changes remain permanently in equity. In accordance with IAS 39, the Corporation accounted for IGM's investment in Personal Capital as available for sale. The reclassification of the investment in the first quarter of 2019 from available for sale to an associate, under IAS 39, resulted in a gain; the contribution of IGM to Power Corporation has been adjusted accordingly.

Adjusted net earnings exclude a positive earnings impact of \$1 million in the twelve-month period ended December 31, 2020, and excluded charges of \$17 million in the corresponding period ended December 31, 2019. These Adjustments are not allocated to segments. The following is a summary of each segment's net earnings:

WEALTH MANAGEMENT

Net earnings decreased by \$43 million to \$702 million in the twelve-month period ended December 31, 2020, compared with the corresponding period in 2019. The decrease in net earnings is mainly related to a decrease in net earnings of IG Wealth Management of \$41 million, primarily due to:

- A decrease in income from advisory fees of \$15 million to \$1,019 million. The decrease was due to the decrease in the advisory fee rate offset in part by the increase in average assets under advisement of 2.5%. The average advisory fee rate for the twelve-month period was 106.3 basis points of average assets under advisement, compared with 110.5 basis points in 2019, primarily reflecting changes in product and client mix;
- A decrease in other financial planning revenues of \$15 million to \$150 million, primarily due to lower distribution income from insurance products;
- A decrease in redemption fee income of \$10 million to \$16 million;
- A decrease in net investment income and other of \$9 million to \$1 million. Net investment and other primarily relates to investment income earned on cash and cash equivalents and securities and other income not related to IG Wealth Management's core business. It also includes a charge from the Strategic Investments and Other segment for the use of unallocated capital;
- An increase in operations and support expenses of \$21 million to \$407 million which includes costs that support wealth management and other general and administrative functions such as product management, technology and operations, as well as other functional business units and corporate expenses. The increase in expenses was primarily due to expenses related to information technology, including Advisor Portal as well as expenses related to IGM's ongoing transformation program; and
- An increase in sub-advisory expenses of \$4 million to \$150 million.

Partially offset by:

- An increase in income from product and program fees of \$6 million, primarily due to the increase in average assets under management of 2.3%. The average product and program fee rate for the year was 86.3 basis points of average assets under management, compared with 87.6 basis points in 2019, reflecting changes in product mix; and

- A decrease in advisory and business development expenses of \$27 million to \$740 million in the twelve-month period which includes compensation paid to Consultants, the majority of which varies directly with asset or sales levels. Sales-based compensation decreased by \$59 million to \$36 million, due to commissions paid on the sales of investment products being capitalized in 2020 due to changes in how IG consultant commissions are paid. Other advisory and business development expenses decreased by \$8 million to \$199 million due to the reduction of certain costs due to COVID-19. These reductions were partially offset by an increase of asset-based compensation of \$49 million mainly due to increased average assets under advisement and compensation changes implemented in 2020.

Net earnings decreased by \$12 million to \$189 million in the three-month period ended December 31, 2020, compared with the corresponding quarter in 2019. The decrease in net earnings is mainly related to a decrease in net earnings of IG Wealth Management of \$13 million, primarily due to:

- An increase in operations and support expenses of \$10 million to \$102 million, primarily due to the same reasons discussed in the twelve-month period above;
- An increase in advisory and business development expenses of \$3 million to \$197 million in the three-month period. The increase is primarily due to an increase in asset-based compensation of \$15 million mainly due to the same reasons discussed in the twelve-month period above. The increase was partially offset by a decrease in sales-based compensation of \$12 million to \$11 million mainly due to the same reasons discussed in the twelve-month period above.
- A decrease in net investment income and other of \$3 million to \$1 million; and
- A decrease in redemption fees of \$3 million to \$3 million.

Partially offset by:

- An increase in income from product and program fees of \$5 million, due to the increase in average assets under management of 3.5%. The average product and program fee rate for the quarter was 85.9 basis points of average assets under management, compared with 87.1 basis points in 2019, reflecting changes in product mix; and
- An increase in income from advisory fees of \$2 million, primarily due to the increase in average assets under advisement of 4.7%, offset by a decrease in the advisory fee rate. The average advisory fee rate for the three-month period was 105.3 basis points of average assets under advisement, compared with 109.2 basis points in 2019, reflecting changes in product and client mix.

ASSET MANAGEMENT

The Asset Management segment includes the fees received from IGM's mutual funds, Wealth Management segment and third parties for investment management services.

Net earnings increased by \$12 million to \$234 million in the twelve-month period ended December 31, 2020, compared with the corresponding period in 2019, due to:

- An increase of net asset management fees, which is asset management fees offset by dealer compensation expenses, of \$10 million to \$614 million, mainly due to an increase of \$14 million in net asset management fees – third party, primarily due to an 8.5% increase in average assets under management, partially offset by a decline in the effective net asset management fee rate. Mackenzie's net asset management fee rate was 71.8 basis points for the twelve months ended December 31, 2020, compared with 76.0 basis points in the comparative period in 2019. The decrease in the net asset management fee rate in the current period was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products. The increase in net asset management fees – third party is offset by a decline of \$4 million of management fees – Wealth Management, due to a 1.5% decline in average assets under management coupled with a decline in the effective management fee rate resulting from a change in the composition of assets under management; and
- A decrease in expenses of \$3 million to \$383 million, mainly due to a decrease in sub-advisory expenses of \$2 million and a decrease in operations and support expenses of \$1 million. Operations and support expenses includes costs associated with business operations, including technology and business processes, in-house investment management and product shelf management, corporate management and support functions. These expenses primarily reflect compensation, technology and other service provider expenses.

Partially offset by:

- A decrease in net investment income and other of \$1 million to \$3 million. Net investment income and other primarily includes investment returns related to Mackenzie's investments in proprietary funds, which are generally made in the process of launching a fund and are sold as third-party investors subscribe.

Net earnings increased by \$7 million to \$60 million in the three-month period ended December 31, 2020, compared with the corresponding quarter in 2019, due to:

- An increase of net asset management fees of \$8 million to \$164 million, due to an increase in net asset management fees – third party of \$8 million, primarily due to an 14.8% increase in average assets under management, partially offset by a decline in the effective net asset management fee rate. Mackenzie's net asset management fee rate was 70.8 basis points for the three months ended December 31, 2020, compared with 76.7 basis points in the comparative period in 2019. The decline in the net asset management fee rate in the quarter was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products; and
- An increase in net investment income and other of \$1 million;
- Partially offset by an increase in expenses of \$2 million to \$104 million, primarily due to a \$6 million increase in advisory and business development expenses, due to higher wholesaler commissions attributed to a record-high level of sales, partially offset by lower travel and entertainment expenses. This increase was partially offset by a \$3 million decrease in operations and support expenses, as well a \$1 million decrease in sub-advisory expenses.

ASSETS UNDER MANAGEMENT AND ADVISEMENT

Assets under Advisement (AUA) are the key driver of the Wealth Management segment. AUA are savings and investment products held within client accounts of IGM's Wealth Management segment's operating companies.

Assets under Management (AUM) are the key driver of the Asset Management segment and a secondary driver of revenues and expenses within the Wealth Management segment in relation to its investment management activities. AUM are client assets where IGM provides investment management services, and include investment funds where IGM is the fund manager, investment advisory mandates to institutions, and other client accounts where IGM has discretionary portfolio management responsibilities.

Total assets under management and advisement were as follows:

(In billions of dollars)	December 31, 2020	September 30, 2020	December 31, 2019	September 30, 2019
Wealth Management				
Assets under management	103.0	98.0	98.6	96.1
Other assets under advisement	29.6	27.0	26.3	25.6
Assets under advisement	132.6	125.0	124.9	121.7
Asset Management				
Assets under management excluding sub-advisory to Wealth Management	111.0	74.6	68.2	66.4
Sub-advisory to Wealth Management	75.8	72.7	73.6	72.6
Assets under management	186.8	147.3	141.8	139.0
Consolidated ^[1]				
Assets under management	214.0	172.6	166.8	162.5
Other assets under advisement ^[2]	26.0	23.8	23.2	22.6
Total assets under management and advisement ^[2]	240.0	196.4	190.0	185.1

[1] Represents the consolidated assets under management and advisement of IGM. In the Wealth Management segment, assets under management is a component part of assets under advisement. All instances where the Asset Management segment is providing investment management services or distributing its products through the Wealth Management segment are eliminated in IGM reporting such that there is no double counting of the same client assets held at IGM operating companies.

[2] Includes adjustment representing the elimination of double counting where business is reflected within multiple segments.

Total average assets under management and advisement were as follows:

(In billions of dollars)	Q4	Q3	Q2	2020 Q1	Q4	Q3	Q2	2019 Q1
Wealth Management								
Assets under advisement	128.3	124.3	117.1	121.9	123.2	121.2	120.9	117.1
Assets under management	100.4	97.7	91.9	96.2	97.3	95.8	95.6	92.3
Asset Management								
Assets under management excluding sub-advisory to Wealth Management	77.2	73.7	67.3	67.1	67.2	66.3	66.2	63.6
Total assets under management	150.9	145.8	135.6	138.5	140.2	139.2	139.8	135.7
Consolidated^[1]								
Assets under management	177.6	171.4	159.2	163.3	164.5	162.1	161.8	155.9
Assets under management and advisement ^[2]	202.2	194.9	181.5	186.0	187.4	184.7	184.2	177.8

[1] Represents the consolidated assets under management and advisement of IGM. All instances where the Asset Management segment is providing investment management services or distributing its products through the Wealth Management segment are eliminated in IGM reporting such that there is no double counting of the same client assets held at IGM operating companies.

[2] Includes adjustment representing the elimination of double counting where business is reflected within multiple segments.

ADJUSTMENTS

Adjustments are items excluded from net earnings in the determination of adjusted net earnings by IGM's management.

Adjusted net earnings in 2020 exclude a positive earnings impact of \$1 million, consisting of:

- In the fourth quarter, IGM recognized a gain on the sale of the investment in the Quadrus Group of Funds to Lifeco net of acquisition costs, of \$21 million after tax (\$25 million pre-tax). The Corporation has not included the amount of the gain of \$30 million on the sale of Quadrus Group of Funds in its Adjustments as this gain was eliminated on consolidation.
- In the fourth quarter, a positive earnings impact of \$3 million, consisting of IGM's proportionate share of Lifeco's after-tax adjustments, related to the revaluation of a deferred tax asset less certain restructuring and transaction costs; and
- In the third quarter, a gain on the sale of the investment in Personal Capital of \$31 million after tax (\$37 million pre-tax). The Corporation has not included the amount of the gain on the sale of Personal Capital in its Adjustments as this gain was eliminated on consolidation. The Corporation recognized a gain as a result of the investment in Personal Capital being remeasured at fair value on the date control was acquired by Lifeco; this gain was not included as an Adjustment, in accordance with the Corporation's definition of Adjusted net earnings.

Offset by:

- In the third quarter, restructuring and other charges of \$54 million after tax (\$75 million pre-tax) resulting from IGM's ongoing multi-year transformation initiatives and efforts to enhance its operational effectiveness and also from the acquisition of GLC and other changes to IGM's investment management teams. This included activities to improve efficiency and capabilities by leveraging the scale and expertise of scaled providers through outsourcing partnerships, as well as process automation initiatives relating to key internal processes. As a result of these initiatives, IGM recorded costs relating to restructuring and downsizing activities as well as impairment of redundant internally generated software assets. During the third quarter, IGM also incurred severance and other charges relating to the acquisition of GLC as well as other personnel changes.

Adjusted net earnings in 2019 excluded a net charge of \$17 million, consisting of IGM's proportionate share of Lifeco's Adjustments in accordance with IGM's definition of Adjusted net earnings, of which \$9 million was recognized in the fourth quarter and \$8 million in the second quarter.

The information above has been derived from IGM's annual MD&A; see Part C of this MD&A for more information on IGM's results.

GBL

In the fourth quarter of 2020, following the merger of Parjointco SA and Pargesa (refer to the section "2020 Highlights"), Pargesa was delisted from the SIX and has therefore ceased to publish quarterly financial information. Accordingly, the Corporation has introduced the financial information publicly filed by GBL in this section, including the comparative information, as well as in Part D of this MD&A. The Contribution to Power Corporation in the first three quarters of 2020 is based on the adjusted and net earnings reported by Pargesa which include the Corporation's share of Pargesa's Adjustments. GBL does not identify Adjustments or report adjusted net earnings.

Contribution to Power Corporation

(In millions of Canadian dollars)	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Contribution to Power Corporation's ^[1] :					
Adjusted net earnings (loss)					
As reported by GBL ^[2]	89	181	16	(15)	51
Effect of consolidation ^[3]	(56)	49	(61)	(28)	5
	33	230	(45)	(43)	56
Adjustments ^[2]	(6)	(37)	-	(2)	(24)
Non-controlling interests of Power Financial	(33)	(68)	-	-	(10)
Net earnings (loss)	(6)	125	(45)	(45)	22

[1] In the twelve-month period ended December 31, 2020, Power Financial's average indirect ownership in GBL was 14.2% (13.9% in the corresponding period in 2019). The contributions to earnings from Power Financial for the periods prior and subsequent to the Reorganization are based on ownership of Power Financial of 64.1% and 100%, respectively (average direct ownership was 64.5% in the corresponding twelve-month period in 2019).

[2] Prior to the fourth quarter, the Contribution to the Corporation was based on the financial results of Pargesa which included Adjustments identified by Pargesa. As of the fourth quarter of 2020, the Contribution to the Corporation is based on the financial results reported by GBL.

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

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

(In millions of Euros)	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Share of earnings (loss) of associates and consolidated operating companies of:					
Imerys	16	66	(36)	21	(21)
Webhelp	27	(20)	(4)	21	(20)
Pioli II/Parques	(72)	(86)	(35)	(3)	(48)
Sienna Capital	38	40	16	16	23
	9	-	(59)	55	(66)
Net dividends from investments:					
SGS	108	87	-	-	-
LafargeHolcim	89	111	-	-	-
Pernod Ricard	53	62	29	-	39
GEA	13	13	7	-	-
Umicore	11	34	-	11	-
Total	-	36	-	-	7
adidas	-	43	-	-	-
Ontex	-	7	-	-	-
Other ^[1]	39	115	16	-	1
	313	508	52	11	47
Interest income (expenses)	(24)	4	(7)	(7)	(4)
Other financial income (expenses)	239	139	136	(80)	61
Other operating income (expenses)	(146)	(62)	(60)	(40)	(21)
Gains (losses) from disposals, impairments and reversals of non-current assets	1	116	6	-	117
Taxes	(1)	-	-	(1)	-
Net earnings (loss)^[2, 3]	391	705	68	(62)	134

[1] In 2020, mainly consists of a reimbursement of withholding taxes to be received from the French tax authorities relating to dividends received from Engie and Total in 2008 and between 2016 and 2018 (in 2019, mainly consists of reimbursements of withholding taxes relating to dividends received from Total and Engie between 2013 and 2016).

[2] Described as "IFRS consolidated net result" in Part D of this MD&A.

[3] Attributable to GBL shareholders.

2020 vs. 2019

Q4 2020 vs. Q4 2019 and Q3 2020

Net earnings

€391 million, compared with €705 million in the corresponding period in 2019, a decrease of 44.5%.

€68 million, compared with €134 million in the corresponding period in 2019, a decrease of 49.3%, and a net loss of €62 million in the third quarter of 2020.

IAS 39 adjustments to the contribution of GBL

On January 1, 2018, GBL adopted IFRS 9, *Financial Instruments*. The majority of its investments in public entities are classified as FVOCI, an elective classification for equity instruments in which all fair value changes remain permanently in OCI. GBL and Pargesa have consistent classifications in accordance with IFRS 9.

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

Power Corporation has deferred the adoption of IFRS 9 and continues to apply IAS 39. The following table presents adjustments to the contribution of GBL to Power Corporation's earnings in accordance with IAS 39:

(In millions of Canadian dollars)	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Disposal of interest in Total ^[1]	45	-	-	-	-
Partial disposal of interest in adidas ^[2]	-	46	-	-	-
Partial disposal of interest in LafargeHolcim ^[3]	-	15	-	-	15
Impairment charges ^[4]	(52)	(8)	-	(7)	-
Disposal of private equity funds and other ^[5]	18	-	7	(2)	-
Reversal of unrealized (gains) losses on private equity funds and other ^[6]	(100)	(22)	(68)	(19)	(12)
Total	(89)	31	(61)	(28)	3

[1] During the second quarter of 2019, GBL sold substantially all of its 0.6% interest in Total through forward sales contracts, which matured in January 2020 and resulted in a gain. GBL's gain of €411 million was not reflected in its earnings as the investment is classified as FVOCI. Power Corporation's share of this realized gain was \$45 million.

[2] During the first and second quarters of 2019, a portion of the investment in adidas was disposed of, resulting in gains of €86 million and €247 million, respectively. These gains were not reflected in GBL's earnings as the investment is classified as FVOCI. Power Corporation's share of the realized gain was \$12 million in the first quarter and \$34 million in the second quarter.

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

[4] Under IFRS 9, GBL classifies the majority of its investments in public entities as FVOCI, and as a result impairment charges are not recognized in earnings. Power Corporation recognized impairment charges on the following investments:

- GEA – The investment in GEA has been previously impaired, resulting in an adjusted cost of €22.50 per share. During the first quarter of 2020, the share price decreased to €18.73, resulting in an impairment charge. Power Corporation's share was \$13 million.
- LafargeHolcim – The investment in LafargeHolcim has been previously impaired, resulting in an adjusted cost of €35.83 per share. During the first quarter of 2020, the share price decreased to €33.41, resulting in an impairment charge. Power Corporation's share was \$27 million.
- Ontex – The investment in Ontex has been previously impaired, resulting in an adjusted cost of €14.18 per share. During the second quarter of 2020, the share price decreased to €13.03, resulting in an impairment charge. Power Corporation's share was \$5 million. During the third quarter of 2020, the share price decreased to €11.15, resulting in an impairment charge. Power Corporation's share was \$7 million. In the second quarter of 2019, Power Corporation recorded its share of an impairment charge of \$8 million on Ontex.

[5] During the first and fourth quarters of 2020, Power Corporation recognized its share of gains on the sale of other investments in the amount of \$8 million and \$7 million, respectively. The gain in the first quarter resulted from the reversal of a previously recognized impairment. During the second and third quarters of 2020, the Corporation recognized its share of \$4 million and \$2 million, respectively, mainly related to an impairment on an investment held through a private equity fund. During the first quarter of 2020, an investment held through private equity funds, classified as FVPL in accordance with IFRS 9, was disposed of, resulting in a gain. Power Corporation's share of the realized gain in accordance with IAS 39 was \$9 million.

[6] GBL classifies private equity investments at FVPL in accordance with IFRS 9, and recognizes unrealized changes in fair value in earnings. Power Corporation does not recognize these unrealized fair value changes in earnings as it continues to classify these private equity funds as available for sale in accordance with IAS 39.

Other than the share of earnings of Imerys, Webhelp, Parques and Sienna Capital, a significant portion of GBL's net earnings is composed of dividends from its non-consolidated investments, which are usually declared as follows:

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

Due to the impact of COVID-19, adidas, Umicore, Pernod Ricard and Ontex have temporarily suspended or reduced dividend payments.

RESULTS

Net earnings in the twelve-month period ended December 31, 2020 decreased by €314 million to €391 million, compared with the corresponding period in 2019. The decrease in net earnings was mainly due to:

- A decrease in the contribution from Imerys to net earnings of €50 million to €16 million at December 31, 2020;
- A negative contribution from Piolin II of €72 million at December 31, 2020, compared with a negative contribution of €86 million in the corresponding period in 2019, notably due to significant impairments recognized by Parques;
- A decrease in dividends of €195 million to €313 million, compared with €508 million in the corresponding period in 2019. An increase in dividends from SGS of €21 million due to the increase in equity interest was offset by a decrease in the dividends from LafargeHolcim of €22 million and Total of €36 million due to a decrease in the equity interests held. Dividends from other portfolio companies decreased by €82 million reflecting decisions to either temporarily suspend or reduce dividend payments due to the current market environment. Other dividends of €39 million mainly relate to the reimbursement of withholding taxes to be received from the French tax authorities relating to dividends received from Engie and Total in 2008 and between 2016 and 2018, compared with €107 million received in 2019;
- The contribution from Sienna Capital decreased by of €2 million to €38 million;
- Net interest expenses were €24 million in 2020, compared with a net interest income of €4 million in 2019. Net interest expense includes interest expenses on outstanding institutional bonds and interest charges to GBL partially offset by interest income from Sienna Capital and default interest on withholding taxes discussed above;
- An increase in other operating expenses of €84 million to €146 million. Other operating expenses includes an expense of €73 million related to the increase in debt recorded under Webhelp's staff incentive plan due to the effect of discounting and vesting as well as overhead expenses related to Sienna Capital; and
- A decrease in gains (losses) from disposals, impairments and reversals of non-current assets of €115 million. In 2019, GBL recognized net gains on the sale of two investments held by Sienna Capital.

Partially offset by:

- An increase in other financial income of €100 million to €239 million, which includes the net increase in fair value of €392 million of Sienna Capital's investments in funds which are not consolidated or equity accounted, a positive impact from the mark to market of derivative held by GBL, partially offset by the net negative impact of marking to market the debt held by GBL to Webhelp's minority shareholders of €209 million; and
- A contribution of €27 million from Webhelp which was acquired at the end of 2019. The negative contribution to net earnings in 2019 of €20 million were related to GBL's share of transaction costs linked to the acquisition of Webhelp.

Net earnings in the three-month period ended December 31, 2020, decreased by €66 million to €68 million in the corresponding quarter in 2019. The decrease in net earnings was mainly due to:

- A decrease in the contribution from Imerys to net earnings of €15 million to a negative contribution to GBL of €36 million;
- A decrease in the contribution from Sienna Capital of €7 million to €16 million;
- An increase in other operating expenses of €39 million to €60 million. Other operating expenses in the fourth quarter of 2020 includes an expense of €52 million related to the increase in debt recorded under Webhelp's staff incentive plan due to the effect of discounting and vesting; and
- A decrease in gains (losses) from disposals, impairments and reversals of non-current assets of €111 million for the same reasons discussed above.

Partially offset by:

- An increase in the contribution from Webhelp of €16 million to a negative contribution to net earnings of €4 million. Webhelp was acquired at the end of 2019 and charges in the fourth quarter of 2019 mainly related to GBL's share of transaction costs as discussed above;
- An increase in the contribution from Parques of €13 million to a negative contribution to net earnings of €35 million;
- An increase in dividends of €5 million to €52 million mainly due to other dividends of €16 million, for the same reasons discussed above; and
- An increase in other financial income of €75 million to €136 million, for the same reasons discussed above. The net negative impact of marking to market the debt held by GBL to Webhelp's minority shareholders was €163 million in the fourth quarter.

ADJUSTMENTS

Adjustments are items excluded from net earnings in the determination of adjusted net earnings by Pargesa's management. The Contribution to the Corporation's adjusted and net earnings for the first three quarters of 2020 and the year ended December 31, 2019 include the Corporation's share of Adjustments reported by Pargesa. GBL does not identify Adjustments or report adjusted net earnings.

Pargesa reported Adjustments of SF5 million, SF6 million and SF2 million in the first, second and third quarters, respectively, of 2020. Adjustments in 2020 totalled SF13 million, and mainly consisted of Pargesa's share of charges of Imerys, Parques and Webhelp.

Adjustments in 2019 were SF101 million, and mainly consisted of:

- Pargesa's share of Imerys' charges of SF49 million:
 - Charges of SF21 million relating to the implementation of a transformation program and charges related to the temporary shutdown of a U.S. plant, primarily recognized in the second quarter;
 - Charges of SF28 million relating to costs incurred by Imerys as part of its transformation program and depreciation of non-core assets due to the deconsolidation of the North American talc subsidiaries, recognized in the fourth quarter;
- Pargesa's share of Parques' charges of SF38 million: non-recurring expenses recorded by Parques, of which SF16 million was recognized in the third quarter and SF22 million in the fourth quarter; and
- Pargesa's share of SF11 million related to the contribution recognized by GBL following the acquisition of Webhelp, which primarily consists of GBL's share of transaction costs to complete the acquisition, recognized in the fourth quarter.

AVERAGE EXCHANGE RATES

The average exchange rates for the twelve-month and three-month periods ended December 31, 2020 and 2019 were as follows:

	Twelve months ended			Three months ended		
	December 31, 2020	December 31, 2019	Change %	December 31, 2020	December 31, 2019	Change %
Euro/CAD	1.530	1.486	3.0	1.554	1.462	6.3
SF/CAD	1.429	1.335	7.0	1.442	1.334	8.1

The information above has been derived from GBL's 2020 year-end press release; see Part D of this MD&A for additional information on GBL's results.

ALTERNATIVE AND OTHER INVESTMENTS

Alternative and other investments are comprised of the results of the investment platforms, which includes income earned from asset management and investing activities. Asset management activities includes management fees and carried interest net of investment platform expenses. Investing activities comprises income earned on the capital invested by the Corporation (proprietary capital) in each platform and the share of earnings (losses) of controlled and consolidated subsidiaries held within the investment platforms. Other includes the share of earnings (losses) of standalone businesses and the Corporation's investments in investment and hedge funds.

Income earned from investing activities (proprietary capital) and earnings from other investments are volatile in nature as they depend on many factors, including and primarily related to the timing of realizations.

Summary of income (loss) from the Corporation's alternative and other investments:

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
INVESTMENT PLATFORMS					
Sagard Holdings					
Asset management activities					
Management fees ^[1]	62	40	17	17	13
Investment platform expenses	(82)	(75)	(27)	(18)	(21)
	(20)	(35)	(10)	(1)	(8)
Net carried interest	17	4	7	5	1
	(3)	(31)	(3)	4	(7)
Investing activities (proprietary capital)					
Private equity and other strategies	39	10	8	-	3
Venture capital (fintech investments) ^[2]	(11)	(30)	32	(37)	(11)
	25	(51)	37	(33)	(15)
Power Sustainable					
Investing activities (proprietary capital)					
Power Pacific ^[3]	138	124	37	16	28
Power Energy (share of earnings)	(38)	(33)	(11)	(3)	(17)
Investment platform expenses ^[4]	(83)	(30)	(47)	(18)	(16)
	17	61	(21)	(5)	(5)
Income (loss) from investment platforms	42	10	16	(38)	(20)
Standalone businesses ^[5]	31	(76)	47	23	(24)
Other					
Investment and hedge funds	13	24	14	4	4
Other ^[6]	4	24	1	(3)	5
	17	48	15	1	9
Income (loss) from alternative and other investments	90	(18)	78	(14)	(35)

[1] Includes management fees charged by the investment platform on proprietary capital. Management fees paid by the Corporation are deducted from income from investing activities.

[2] Includes the Corporation's share of earnings (losses) of Wealthsimple and Koho (up to the date of deconsolidation on December 1, 2020). In the fourth quarter of 2020, the Corporation's share of the gain on deconsolidation of Koho was \$31 million. The third quarter of 2020 includes a charge of \$36 million related to the Corporation's share of the remeasurement of the put right liability of the non-controlling interests in Wealthsimple to fair value and carried interest payable. The increase in fair value of the Corporation's investment, held through Power Financial, in Portag3 I, Portag3 II, Koho and Wealthsimple was \$201 million in 2020 (\$20 million in 2019).

[3] Mainly comprised of gains (losses) realized on the disposal of investments and dividends received.

[4] Includes carried interest on Power Pacific and Power Energy investing activities.

[5] In the fourth quarter of 2020, the increase in the fair value of the call right held by Power Sustainable to acquire additional equity interests in Lion resulted in a gain of \$102 million, partially offset by an increase in amounts payable for long-term incentive plans and deferred taxes of \$47 million and the Corporation's share of Lion's net loss in the amount of \$35 million. The net loss of Lion includes charges related to their employee incentive plan and an increase in fair value of warrants. Includes the Corporation's share of earnings (losses) of IntegraMed (up to the date of deconsolidation on May 20, 2020), Lumenpulse, Lion, a jointly controlled corporation and associates.

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

Alternative and other investments' impairment charges were as follows:

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Sagard Holdings	24	-	-	-	-
Power Pacific	4	1	-	4	-
Standalone businesses	28	33	-	-	-
Investment and hedge funds	7	4	-	-	1
	63	38	-	4	1

Sagard Holdings

For the twelve-month period ended December 31, 2020, impairment charges were \$24 million, compared with nil for the same period in 2019. The impairment charges comprise a charge of \$6 million in the second quarter of 2020 and of \$18 million in the first quarter of 2020 related to the Corporation's share of an impairment charge on an investment held in the Sagard 3 Fund.

Power Pacific

For the twelve-month period ended December 31, 2020, impairment charges were \$4 million compared with \$1 million for the same period in 2019. Impairment charges in 2020 were due to a decline in equity values.

Standalone businesses

For the twelve-month period ended December 31, 2020, impairment charges were \$28 million, compared with \$33 million for the same period in 2019. Impairment charges comprise an impairment charge on an equity-accounted investment in the first quarter of 2020, due to a decline in equity values at the end of March 2020. Impairment charges in 2019 mainly related to an equity-accounted investment recognized in the third quarter. The impairment charges in 2019 exclude Sagard Holdings' share of an impairment charge recognized by IntegraMed in the fourth quarter for an amount of \$16 million (US\$13 million), which was included in Adjustments.

CHINA AMC

For the twelve-month period ended December 31, 2020, income from China AMC was \$42 million, compared with \$30 million in the same period in 2019.

For the three-month period ended December 31, 2020, income from China AMC was \$12 million, compared with \$7 million in the same quarter in 2019.

CORPORATE OPERATIONS

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

Operating and other expenses

Summary of corporate operating and other expenses of the Corporation and Power Financial shown on a combined basis:

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Operating expenses ^[1]	145	185	31	30	59
Financing charges ^[2]	55	55	14	13	13
Depreciation	16	16	4	4	3
Income taxes ^[3]	(52)	(10)	(29)	(17)	(14)
	164	246	20	30	61

[1] Operating expenses in the twelve month period ended December 31, 2020 includes a gain of \$11 million related to the curtailment of certain executives from the Corporation's pension plan and updated pension assumptions used for certain executives as well as a reduction in other operating expenses in conjunction with the Reorganization.

[2] Financing charges related to Power Financial were \$18 million in the twelve-month period ended December 31, 2020 and 2019.

[3] Includes the recognition of previously unrecognized deferred tax assets to offset deferred tax liabilities which have been recognized on unrealized gains in other comprehensive income.

ADJUSTMENTS (EXCLUDED FROM ADJUSTED NET EARNINGS)

The following table presents the Corporation's share of Adjustments:

	Twelve months ended		Three months ended		
	December 31, 2020	December 31, 2019	December 31, 2020	September 30, 2020	December 31, 2019
Lifeco					
Actuarial assumption changes and other management actions	76	115	(15)	44	(52)
Market-related impacts on liabilities	(85)	(60)	(21)	13	(9)
Net gain (charge) on business dispositions	63	(128)	-	63	6
Transaction costs related to the acquisitions of Personal Capital and MassMutual	(52)	-	(31)	(21)	-
Revaluation of a deferred tax asset	131	(133)	131	-	(133)
Restructuring and integration charges	(56)	(24)	(56)	-	(24)
Share of IGM's adjustments	(1)	-	(1)	-	-
	76	(230)	7	99	(212)
IGM					
Restructuring and other charges	(34)	-	-	(34)	-
Transaction costs related to acquisition of GLC	(3)	-	(3)	-	-
Share of Lifeco's adjustments ^[1]	3	(9)	-	4	(8)
	(34)	(9)	(3)	(30)	(8)
GBL^[2]					
Imerys - Impairments, restructuring charges and other	(3)	(18)	-	(1)	(11)
Parques and other charges	(3)	(19)	-	(1)	(13)
	(6)	(37)	-	(2)	(24)
Alternative and other investments					
Recovery on deconsolidation of IntegraMed	27	-	-	-	-
Share of IntegraMed's goodwill impairment charge	-	(16)	-	-	(16)
	27	(16)	-	-	(16)
Corporate operations					
Reduction of income tax estimates	-	31	-	-	-
Reorganization charges	(8)	(9)	(8)	-	(9)
	(8)	22	(8)	-	(9)
Non-controlling interests of Power Financial					
	(4)	103	-	-	91
	51	(167)	(4)	67	(178)

[1] Includes IGM's share of Lifeco's Adjustments for the impact of actuarial assumption changes and management actions and market impact on insurance contract liabilities, in accordance with the Corporation's definition of Adjusted net earnings.

[2] As previously reported by Pargesa.

Alternative and other investments

- In the fourth quarter of 2019, the Corporation's share of a goodwill impairment charge by IntegraMed was \$16 million (US\$13 million). In the second quarter of 2020, the Corporation's recovery on the deconsolidation of IntegraMed was \$27 million (US\$19 million).

Corporate operations

- During the fourth quarter of 2020, the Corporation recognized charges in conjunction with the Reorganization of \$14 million related to the impairment of certain leasehold improvements and property-related right of use assets partially offset by a gain recorded in the fourth quarter of \$6 million on the disposal of a property.
- During the fourth quarter of 2019, Power Financial incurred \$9 million of costs related to the Reorganization, primarily related to legal and financial advisor fees.
- In the third quarter of 2019, adjustments of \$31 million related to a favourable change to income tax provision estimates.

For additional information, refer to the Lifeco, IGM and GBL "Adjustments" sections and IntegraMed within the "Standalone businesses" section above.

Financial Position

CONSOLIDATED BALANCE SHEETS (CONDENSED)

The condensed balance sheets of Lifeco, IGM and the investment platforms and other, as well as Power Corporation's and Power Financial's combined non-consolidated balance sheet ("Corporate"), are presented below. This table reconciles the non-consolidated balance sheet, which is not in accordance with IFRS, with the condensed consolidated balance sheet of the Corporation at December 31, 2020.

	Lifeco	IGM	Investment Platforms and Other ^[1]	Corporate	Effect of consolidation	Power Corporation Consolidated balance sheets	
						December 31, 2020	December 31, 2019
Assets							
Cash and cash equivalents	7,946	772	545	1,226	(449)	10,040	6,805
Investments	190,633	6,964	1,271	4,082	(2,965)	199,985	173,057
Investments in:							
Power Financial, Lifeco and IGM	354	962	–	17,304	(18,620)	–	–
Parjointco	–	–	–	4,216	–	4,216	3,954
Other ^[2]	65	969	331	–	948	2,313	1,939
Funds held by ceding insurers	18,383	–	–	–	–	18,383	8,714
Reinsurance assets	22,121	–	–	–	–	22,121	20,707
Other assets	12,565	2,270	2,860	280	(203)	17,772	14,885
Intangible assets	4,285	1,322	704	2	(34)	6,279	5,843
Goodwill	10,106	2,803	441	–	613	13,963	10,324
Investments on account of segregated fund policyholders	334,032	–	–	–	–	334,032	231,022
Total assets	600,490	16,062	6,152	27,110	(20,710)	629,104	477,250
Liabilities							
Insurance and investment contract liabilities	218,047	–	–	–	–	218,047	176,177
Obligations to securitization entities	–	6,174	–	–	–	6,174	6,914
Power Corporation's debentures and other debt instruments	–	–	–	756	–	756	683
Non-recourse debentures and other debt instruments ^[3]	9,693	2,100	1,344	250	(88)	13,299	9,255
Other liabilities	11,703	2,745	1,993	1,067	555	18,063	16,614
Insurance and investment contracts on account of segregated fund policyholders	334,032	–	–	–	–	334,032	231,022
Total liabilities	573,475	11,019	3,337	2,073	467	590,371	440,665
Equity							
Perpetual preferred shares	–	–	–	2,830	(2,830)	–	–
Non-participating shares	2,714	–	–	956	(2,714)	956	960
Participating shareholders' equity	21,314	4,994	2,596	21,251	(28,904)	21,251	13,214
Non-controlling interests ^[4, 5]	2,987	49	219	–	13,271	16,526	22,411
Total equity	27,015	5,043	2,815	25,037	(21,177)	38,733	36,585
Total liabilities and equity	600,490	16,062	6,152	27,110	(20,710)	629,104	477,250

[1] Includes consolidated investment funds, Wealthsimple and Power Energy.

[2] Includes investments in jointly controlled corporation and associates.

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

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

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

Total assets of the Corporation increased to \$629.1 billion at December 31, 2020, compared with \$477.3 billion at December 31, 2019, primarily due to the MassMutual and Personal Capital acquisitions in 2020 as well as market movement, partially offset by the sale of IPSI by Lifeco and currency movement. The MassMutual transaction added \$115 billion of total assets to Lifeco's balance sheet.

Liabilities increased to \$590.4 billion at December 31, 2020, compared with \$440.7 billion at December 31, 2019, mainly due to the following, as disclosed by Lifeco:

- Insurance and investment contract liabilities increased by \$41.9 billion, primarily due to an increase of \$27.3 billion from the acquisition of the MassMutual retirement services business, the impact of new business and fair value adjustments.
- Investment and insurance contracts on account of segregated fund policyholders increased by \$103.0 billion, primarily due to an increase of \$84.8 billion from the acquisition of the MassMutual retirement services business, the combined impact of market value gains and investment income of \$12.1 billion and the impact of currency movement of \$3.9 billion.

Parts B and C of this MD&A include a discussion of the consolidated balance sheets of Lifeco and IGM, respectively.

NON-CONSOLIDATED BALANCE SHEETS

In the non-consolidated basis of presentation shown below, the non-consolidated balance sheets of Power Corporation and Power Financial are shown on a combined basis; investments in subsidiaries are presented using the equity method. These non-consolidated balance sheets, which are not in accordance with IFRS, enhance the MD&A and assist the reader by identifying changes in the combined non-consolidated balance sheet of Power Corporation and Power Financial.

	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents ^[1]	1,226	1,392
Investment in:		
Lifeco	14,451	13,654
IGM	2,853	2,729
GBL ^[2]	4,216	3,954
Alternative and other investments ^[3]	3,367	2,678
China AMC	715	658
Other assets ^[4]	282	360
Total assets	27,110	25,425
Liabilities		
Debentures and other debt instruments ^[5]	1,006	933
Other liabilities	1,067	1,024
Total liabilities	2,073	1,957
Equity		
Perpetual preferred shares	2,830	2,830
Non-participating shares	956	960
Participating shareholders' equity	21,251	13,214
Total equity	25,037	17,004
Non-controlling interest	-	6,464
Total liabilities and equity	27,110	25,425

[1] Cash equivalents include \$544 million (\$309 million at December 31, 2019) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified as investments in the Consolidated Financial Statements.

[2] Indirectly held through Parjointco.

[3] Includes Power Financial's investments in Portag3 I, Portag3 II and Wealthsimple, presented using the equity method and its investment in Koho.

[4] Includes \$83 million of dividends declared in the fourth quarter by IGM and received by Power Financial on January 29, 2021 (same as at December 31, 2019).

[5] Includes Power Financial's debentures of \$250 million at December 31, 2020 (same as at December 31, 2019).

Cash and cash equivalents

Cash and cash equivalents held by the Corporation and Power Financial amounted to \$1,226 million at December 31, 2020, compared with \$1,392 million at the end of December 2019 (see "Non-Consolidated Statements of Cash Flows" below for details).

The cash and cash equivalents held by Sagard Holdings and Power Pacific amounted to \$280 million at December 31, 2020 (\$193 million at December 31, 2019) and are included in the carrying amount of the investment platform.

Investments

INVESTMENTS IN LIFECO, IGM AND PARJOINTCO (AT EQUITY)

The table below presents a continuity of the investments in Lifeco, IGM and GBL, which are presented using the equity method for the purposes of the non-consolidated presentation; this presentation is not in accordance with IFRS. The carrying value of the investments in Lifeco, IGM and GBL, accounted for using the equity method, increased to \$21,520 million at December 31, 2020, compared with \$20,337 million at December 31, 2019:

	Lifeco	IGM	GBL ^[1]	Total
Carrying value, at the beginning of the year	13,654	2,729	3,954	20,337
Share of adjusted net earnings	1,792	455	33	2,280
Share of adjustments	76	(34)	(6)	36
Share of other comprehensive income (loss)	(5)	2	320	317
Dividends	(1,087)	(333)	(88)	(1,508)
Other ^[2]	21	34	3	58
Carrying value, at December 31, 2020	14,451	2,853	4,216	21,520

[1] Indirectly held through Parjointco.

[2] Other includes the impact of the Reorganization of Pargesa, which results in an increase in retained earnings of \$19 million.

ALTERNATIVE AND OTHER INVESTMENTS

Alternative and other investments are comprised of the following investments:

	December 31, 2020	December 31, 2019
Carrying value, as at		
Sagard Holdings		
Asset management companies	163	153
Investments ^[1]	825	689
Power Sustainable		
Power Pacific ^[2]	1,142	739
Power Energy ^[2]	427	325
Other		
Standalone businesses	563	523
Other ^[3]	247	249
	3,367	2,678

[1] Includes Power Financial's investments in Portag3 I, Portag3 II, Wealthsimple and Koho.

[2] Includes investment platform management activities.

[3] Includes portfolio investments in private investment funds and a select number of hedge funds. These investments are classified as available for sale and are carried at fair value. At December 31, 2020, the Corporation had outstanding commitments to make future capital contributions to these funds for an aggregate amount of \$37 million.

INVESTMENT IN CHINA AMC

The carrying value of Power Corporation's investment in China AMC was \$715 million at December 31, 2020, compared with \$658 million at December 31, 2019.

Carrying value, at the beginning of the year	658
Dividends	(14)
Share of net earnings	42
Share of other comprehensive income	29
Carrying value, at December 31, 2020	715

China AMC's total assets under management, excluding subsidiary assets under management, were RMB¥1,461 billion (C\$285 billion) at December 31, 2020, compared with RMB¥1,032 billion (C\$192 billion) at December 31, 2019.

EQUITY**Non-participating shares**

Non-participating (preferred) shares of the Corporation consist of six series of First Preferred Shares with an aggregate stated capital of \$956 million at December 31, 2020 (\$960 million at December 31, 2019), of which \$950 million are non-cumulative. All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

The terms and conditions of the outstanding First Preferred Shares are described in Note 18 to the Corporation's 2020 Consolidated Financial Statements.

Participating shareholders' equity

Participating shareholders' equity was \$21,251 million at December 31, 2020, compared with \$13,214 million at December 31, 2019:

Twelve months ended December 31	2020	2019
Participating shareholders' equity, at the beginning of the year	13,214	14,104
Changes in participating shares		
Issuance of subordinate voting shares in acquisition of non-controlling interests of Power Financial	8,687	-
Issuance of participating preferred shares	206	-
Purchase for cancellation of subordinate voting shares under NCIB	(110)	-
Issuance of subordinate voting shares (1,497,952 shares in 2020 and 1,422,502 shares in 2019) under the Corporation's Executive Stock Option Plan	48	33
	8,831	33
Changes in retained earnings		
Net earnings before dividends on non-participating shares	2,046	1,160
Dividends declared	(1,263)	(920)
Acquisition of non-controlling interests in Power Financial	(2,847)	-
Transaction costs on acquisition of non-controlling interests in Power Financial	(46)	-
Purchase for cancellation of subordinate voting shares under NCIB	(83)	-
Repurchase of subordinate voting shares under PCC SIB	-	(1,350)
Effects of changes in capital and ownership of subsidiaries, and other ^[1]	64	143
	(2,129)	(967)
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	15	(321)
Investment revaluation and cash flow hedges	316	160
Actuarial gains (losses) on defined benefit plans	(137)	(87)
Share of Parjointco and other jointly controlled corporations and associates	413	264
Reattribution on acquisition of non-controlling interests of Power Financial	647	-
Share-based compensation, including the effect of subsidiaries ^[2]	81	28
	1,335	44
Participating shareholders' equity, at December 31	21,251	13,214

[1] Mainly relates to effects of changes in ownership on Parjointco's interest in GBL and Power Financial's ownership in Wealthsimple.

[2] Includes reattribution of share-based compensation on acquisition of non-controlling interests of Power Financial.

The book value per participating share of the Corporation was \$31.38 at December 31, 2020, compared with \$30.98 at the end of 2019.

Outstanding number of participating shares

At the date of this MD&A, there were 54,860,866 participating preferred shares of the Corporation outstanding, compared with 48,854,772 at December 31, 2019, and 621,703,526 subordinate voting shares of the Corporation outstanding, compared with 377,614,607 at December 31, 2019.

As part of the Reorganization, the Corporation assumed the Power Financial Employee Stock Option Plan. The 13,079,888 options outstanding at February 13, 2020 under Power Financial's Employee Stock Option Plan were exchanged for 13,733,786 options to acquire subordinate voting shares of the Corporation (Replacement Options). The Replacement Options each entitle the option holders to receive 1.05 subordinate voting shares of the Corporation.

At the date of this MD&A, options were outstanding to purchase up to an aggregate of 30,253,897 subordinate voting shares of the Corporation, which includes 12,154,754 subordinate voting shares issuable pursuant to Replacement Options, under the Corporation's Executive Stock Option Plan and the Power Financial Employee Stock Option Plan.

Reorganization

On February 12, 2020, in connection with the Reorganization, and in accordance with the Pre-emptive Right, the Corporation issued 6,006,094 Participating Preferred Shares to holders who duly exercised the Pre-emptive Right at a price of \$34.27 per Participating Preferred Share, representing a cash consideration of \$206 million.

Also, on February 13, 2020, the Corporation acquired 238,693,580 Power Financial Common Shares, in exchange for 1.05 Subordinate Voting Shares of the Corporation and \$0.01 per share in cash. The Corporation issued 250,628,173 Subordinate Voting Shares at a price of \$34.66 per Subordinate Voting Share and paid \$2 million in cash for a total consideration of \$8.7 billion.

Normal Course Issuer Bid

The Corporation commenced a Normal Course Issuer Bid (NCIB) on February 20, 2020 which was effective until the earlier of February 19, 2021 and the date on which the Corporation has purchased the maximum permitted number of Subordinate Voting Shares. Pursuant to this bid, the Corporation was authorized to purchase up to 30 million of its Subordinate Voting Shares outstanding as at February 20, 2020 (representing approximately 5.2% of the public float of Subordinate Voting Shares outstanding) at market prices.

During the first quarter of 2020, the Corporation purchased for cancellation 7,352,500 Subordinate Voting Shares pursuant to its NCIB at a price of \$193 million. The Corporation's share capital was reduced by the average carrying value of the shares repurchased for cancellation. The excess paid over the average carrying value of stated capital was \$83 million and was recognized as a reduction to retained earnings. At the end of March 2020, in light of the market environment, the Corporation temporarily suspended its share buybacks and did not make any further purchases before the expiry of this NCIB.

SUBSEQUENT EVENT

On February 25, 2021, the Corporation commenced a NCIB which is effective until the earlier of February 24, 2022 and the date on which the Corporation has purchased the maximum permitted number of Subordinate Voting Shares. Pursuant to this bid, the Corporation may purchase up to 30 million of its Subordinate Voting Shares outstanding as at February 17, 2021, (representing approximately 5.3% of the public float of Subordinate Voting Shares outstanding) at market prices. The Corporation decided to commence share buybacks at the end of February 2021 to offset dilution from the exercise of employee stock options. At March 17, 2021, the Corporation has repurchased 1,160,000 subordinate voting shares at a price of \$36 million.

Substantial issuer bids

On April 17, 2019, Lifeco completed a substantial issuer bid (Lifeco SIB) and purchased for cancellation 59,700,974 of its common shares at a purchase price of \$33.50 per common share. Power Financial participated in the Lifeco SIB and as a result its equity interest in Lifeco decreased from 67.8% to 66.8% (excluding IGM's 4.0% interest).

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

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

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

Net Asset Value

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

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

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

The Corporation's net asset value per share is presented on a look-through basis. The combined non-consolidated balance sheets of Power Corporation and Power Financial include the investments held in public entities through Power Financial (Lifeco, IGM and GBL), and the net debt and preferred shares of Power Financial. The net asset value per share was \$41.27 at December 31, 2020, compared with \$34.94 at September 30, 2020, representing an increase of 18.1%. The net asset value per share was \$44.98 at December 31, 2019.

	December 31, 2020			December 31, 2019		
	Combined non-consolidated balance sheet	Fair value adjustment	Net asset value	Combined non-consolidated balance sheet	Fair value adjustment	Net asset value
Assets						
Investments						
Power Financial ^[1]						
Lifeco	14,451	4,374	18,825	13,654	6,976	20,630
IGM	2,853	2,252	5,105	2,729	2,786	5,515
GBL ^[2]	4,216	(1,346)	2,870	3,954	(1,413)	2,541
Alternative and other investments						
Sagard Holdings						
Asset management companies ^[3]	163	-	163	153	-	153
Investments ^[4]	825	310	1,135	689	126	815
Power Sustainable						
Power Pacific	1,142	-	1,142	739	-	739
Power Energy	427	303	730	325	320	645
Other						
Standalone businesses ^[5]	563	788	1,351	523	173	696
Other	247	19	266	249	51	300
China AMC ^[6]	715	-	715	658	-	658
Cash and cash equivalents	1,226	-	1,226	1,392	-	1,392
Other assets	282	-	282	360	-	360
Total assets	27,110	6,700	33,810	25,425	9,019	34,444
Liabilities and non-participating shares						
Debentures and other debt instruments	1,006	-	1,006	933	-	933
Other liabilities ^[7]	1,067	-	1,067	1,024	-	1,024
Non-participating shares and perpetual preferred shares	3,786	-	3,786	3,790	-	3,790
Total liabilities and non-participating shares	5,859	-	5,859	5,747	-	5,747
Non-controlling interests	-	-	-	6,464	3,050	9,514
	5,859	-	5,859	12,211	3,050	15,261
Net value						
Participating shareholders' equity / Net asset value	21,251	6,700	27,951	13,214	5,969	19,183
Per share	31.38		41.27	30.98		44.98

[1] Investments held by Power Financial have been presented on a look-through basis at December 31, 2019; the corresponding adjustment representing the ownership not held by Power Corporation is included in non-controlling interests.

[2] The Pargesa reorganization was completed in the fourth quarter of 2020 and Pargesa was delisted from the SIX; the fair value at December 31, 2019 was based on the market value of Pargesa. The fair value based on the market value of GBL at December 31, 2019 was \$3,032 million.

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

[4] Includes the Corporation's investments in Portag3 I, Portag3 II, Wealthsimple and Koho, held by Power Financial.

[5] At December 31, 2020, the investment in Lion was valued based on the subscription price of US\$10.00 per share for the private placement of common shares announced as part of the merger transaction with Northern Genesis Acquisition Corp.

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

[7] In accordance with IAS 12, *Income Taxes*, no deferred tax liability is recognized with respect to temporary differences associated with investments in subsidiaries and jointly controlled corporations as the Corporation 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. If the Corporation were to dispose of an investment in a subsidiary or a jointly controlled corporation, income taxes payable on such disposition would be minimized through careful and prudent tax planning and structuring, as well as with the use of available tax attributes not otherwise recognized on the balance sheet, including tax losses, tax basis, safe income and foreign tax surplus associated with the subsidiary or jointly controlled corporation.

Investments measured at market value and cash represent 87.3% of the total assets at fair value at December 31, 2020 (83.9% at December 31, 2019). A 10% change in the market value of publicly traded investments would result in a change in the Corporation's net asset value of \$2,798 million or \$4.13 per share.

Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)

The condensed cash flows of Lifeco, IGM and the Corporation's investment platforms, as well as Power Corporation's and Power Financial's non-consolidated cash flows on a combined basis, are presented below. This table reconciles the non-consolidated statement of cash flows, which is not in accordance with IFRS, to the condensed consolidated statement of cash flows of the Corporation for the twelve-month period ended December 31, 2020.

	Lifeco	IGM	Investment Platforms and Other ^[1]	Corporate	Effect of consolidation	Power Corporation Consolidated	
Twelve months ended December 31						2020	2019
Cash flows from:							
Operating activities	9,610	737	(13)	1,299	(1,532)	10,101	6,621
Financing activities	2,010	(1,358)	1,117	(1,270)	1,139	1,638	(4,631)
Investing activities	(8,202)	673	(849)	(195)	158	(8,415)	(1,478)
Effect of changes in exchange rates on cash and cash equivalents	(100)	-	11	-	-	(89)	(148)
Increase (decrease) in cash and cash equivalents	3,318	52	266	(166)	(235)	3,235	364
Cash and cash equivalents, at the beginning of the year	4,628	720	374	1,392	(309)	6,805	6,441
Cash and cash equivalents, at December 31	7,946	772	640	1,226	(544)	10,040	6,805

[1] Includes consolidated investment funds, Wealthsimple and Power Energy.

Consolidated cash and cash equivalents increased by \$3,235 million in the twelve-month period ended December 31, 2020, compared with an increase of \$364 million in the corresponding period in 2019.

Operating activities produced a net inflow of \$10,101 million in the twelve-month period ended December 31, 2020, compared with a net inflow of \$6,621 million in the corresponding period in 2019.

Cash flows from financing activities, which include the issuance and repayment of capital instruments, repurchase of shares pursuant to the Lifeco SIB, the PFC SIB and the PCC SIB, the repurchase of participating shares, issuance of participating preferred shares, dividends paid on the participating and non-participating shares of the Corporation, and dividends paid by subsidiaries to non-controlling interests, represented a net inflow of \$1,638 million in the twelve-month period ended December 31, 2020, compared with a net outflow of \$4,631 million in the corresponding period in 2019.

Cash flows from investing activities resulted in a net outflow of \$8,415 million in the twelve-month period ended December 31, 2020, compared with a net outflow of \$1,478 million in the corresponding period in 2019.

The Corporation increased its level of fixed income securities with maturities of more than three months, resulting in a net outflow of \$235 million in the twelve-month period ended December 31, 2020, compared with a net inflow of \$65 million in the corresponding period in 2019.

Parts B and C of this MD&A include a discussion of the cash flows of Lifeco and IGM, respectively.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

As Power Corporation is a holding company, corporate cash flows are primarily comprised of dividends received, income from investments and income (loss) from cash and cash equivalents, less operating expenses, financing charges, income taxes, and non-participating and participating share dividends.

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

Twelve months ended December 31	2020	2019
Operating activities		
Dividends		
Lifeco ^[1]	1,087	1,045
IGM	333	333
GBL ^[2]	88	80
China AMC	14	10
Corporate operations, net of non-cash items ^[3]	(223)	(151)
	1,299	1,317
Financing activities		
Dividends paid on:		
Non-participating shares	(52)	(52)
Participating shares	(1,081)	(695)
Perpetual preferred shares	(138)	(139)
Common shares	(108)	(436)
Issuance of participating preferred shares	206	-
Issuance of subordinate voting shares	42	30
Repurchase of subordinate voting shares	(193)	-
Repurchase of non-participating shares	(4)	(2)
Repurchase of shares under SIBs ^[1]	-	(1,600)
Changes in other debt instruments	63	36
Share repurchase expense and other	(5)	(15)
	(1,270)	(2,873)
Investing activities		
Distributions and proceeds from disposal of investments	212	165
Purchase of investments	(371)	(299)
Acquisition of Power Financial non-controlling interests including transaction costs paid	(48)	-
Proceeds from tender of shares under SIBs ^[1]	-	1,652
Other ^[4]	12	1
	(195)	1,519
Increase (decrease) in cash and cash equivalents	(166)	(37)
Cash and cash equivalents, at the beginning of the year	1,392	1,429
Cash and cash equivalents, at December 31	1,226	1,392

[1] Includes repurchase of subordinate voting shares by Power Corporation pursuant to its SIB and repurchase of common shares by Power Financial pursuant to its SIB in the second quarter of 2019. Power Financial participated in the Lifeco SIB in the second quarter of 2019; the number of shares held by Power Financial decreased by 7.4% or 49,318,032. Power Corporation participated in the PFC SIB in the second quarter of 2019; the number of shares held by Power Corporation decreased by 9.1% or 42,436,370.

[2] Held through Parjointco.

[3] Includes changes in short-term receivables from, and payables to, investment platforms.

[4] Includes proceeds received from the sale of property by the Corporation.

On a non-consolidated basis, cash and cash equivalents of the Corporation and Power Financial decreased by \$166 million in the twelve-month period ended December 31, 2020, compared with a decrease of \$37 million in the corresponding period in 2019.

Operating activities resulted in a net inflow of \$1,299 million in the twelve-month period ended December 31, 2020, compared with a net inflow of \$1,317 million in the corresponding period in 2019. Dividends paid by the publicly traded operating companies include:

Twelve months ended	December 31, 2020		December 31, 2019	
(In millions of Canadian dollars; except as otherwise noted)	Dividend per share	Total dividend received	Dividend per share	Total dividend received
Lifeco	1.752	1,087	1.652	1,045
IGM	2.25	333	2.25	333
Pargesa ^[1]	SF2.63	SF61	SF2.56	SF60

[1] Total dividend received from Pargesa of \$88 million for the period ended December 31, 2020 and \$80 million for the period ended December 31, 2019.

The Corporation's financing activities during the twelve-month period ended December 31, 2020 were a net outflow of \$1,270 million, compared with a net outflow of \$2,873 million in the corresponding period in 2019, and included:

- Dividends paid on non-participating and participating shares by the Corporation of \$1,133 million, compared with \$747 million in the corresponding period in 2019. In the twelve-month period ended December 31, 2020, dividends paid on the Corporation's participating shares were \$1.7475 per share, compared with \$1.5970 per share in the corresponding period in 2019.
- Dividends paid on preferred and common shares by Power Financial net of those received by the Corporation, of \$246 million, compared with \$575 million in the corresponding period in 2019.
- Issuance of participating preferred shares for \$206 million, as part of the Reorganization, compared with no issuance of participating preferred shares in the corresponding period in 2019.
- Repurchase of \$193 million of subordinate voting shares as part of the NCIB in the first quarter of 2020, compared with no repurchase in the corresponding period in 2019.
- No repurchases of shares under SIBs, compared with a repurchase of subordinate voting shares pursuant to the PCC SIB and repurchase of common shares pursuant to the PFC SIB representing a net amount of \$1,600 million in the corresponding period in 2019.
- Increase in other debt instruments of \$63 million, compared with \$36 million in the corresponding period in 2019.
- Issuance of subordinate voting shares of the Corporation for \$42 million pursuant to the Corporation's Executive Stock Option Plan, compared with issuance for an amount of \$30 million in the corresponding period in 2019.

The Corporation's investing activities during the twelve-month period ended December 31, 2020 were a net outflow of \$195 million, compared with a net inflow of \$1,519 million in the corresponding period in 2019. Investing activities in the corresponding period in 2019 included proceeds received from participating in the PFC SIB and Lifeco SIB representing a net amount of \$1,652 million.

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

Capital Management

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

- provide attractive long-term returns to shareholders of the Corporation;
- provide sufficient financial flexibility to pursue its growth strategy to invest on a timely basis in its operating companies and other investments as opportunities present;
- maintain a capital structure that matches the long-term nature of its investments by maximizing the use of permanent capital; and
- maintain an appropriate credit rating to ensure stable access to the capital markets.

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

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of participating shares, non-participating shares and debentures. The boards of directors of the Corporation's subsidiaries, as well as those of Parjointco and GBL, oversee and have the responsibility for their respective company's capital management.

With the exception of debentures and other debt instruments, the Corporation's capital is permanent, matching the long-term nature of its investments. The capital structure of the Corporation consists of: debentures, non-participating shares, participating shareholders' equity, and non-controlling interests. The Corporation views non-participating shares as a cost-effective source of permanent capital.

The Corporation's consolidated capitalization includes the debentures, preferred shares and other debt instruments issued by its consolidated subsidiaries. Debentures and other debt instruments issued by Power Financial, Lifeco, IGM and controlled investments are non-recourse to the Corporation. The Corporation does not guarantee debt issued by its subsidiaries. Non-participating shares and total equity accounted for 73% of consolidated capitalization at December 31, 2020.

	December 31, 2020	December 31, 2019
Debentures and other debt instruments		
Power Corporation	756	683
Power Financial	250	250
Lifeco	9,693	5,993
IGM	2,100	2,100
Other ^[1]	1,344	1,013
Consolidation adjustments	(88)	(101)
	13,299	9,255
	14,055	9,938
Non-participating shares		
Power Corporation	956	960
Power Financial	2,830	2,830
Lifeco	2,714	2,714
	5,544	5,544
	6,500	6,504
Equity		
Participating shareholders' equity	21,251	13,214
Non-controlling interests ^[2]	10,982	16,867
	32,233	30,081
	52,788	46,523

[1] Includes other debt instruments of controlled and consolidated investments and standalone businesses; consists of \$28 million (\$8 million in 2019) of debt under revolving credit facilities held by the investment funds, \$1,176 million (\$730 million in 2019) of project related debt held by renewable energy subsidiaries, and \$140 million (\$275 million in 2019) of other debt held by standalone businesses. The other debt instruments are secured by the assets of the controlled investments which are non-recourse to the Corporation. See Note 15(B) to the Corporation's 2020 Consolidated Financial Statements for more information.

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

Power Corporation

- The Corporation filed a short-form base shelf prospectus dated November 23, 2020, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of \$5 billion of First Preferred Shares, subordinate voting shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.
- As part of the Reorganization, the Corporation issued 6,006,094 participating preferred shares on February 12, 2020 for consideration of \$206 million and 250,628,173 subordinate voting shares on February 13, 2020. Refer to the section “2020 Highlights” for more information.
- The Corporation commenced a NCIB on February 25, 2021 which is effective until the earlier of February 24, 2022 and the date on which the Corporation has purchased the maximum permitted number of subordinate voting shares. Refer to the section “Participating Shareholders’ Equity” for more information.

Power Financial

- Power Financial filed a short-form base shelf prospectus dated November 23, 2020, pursuant to which, for a period of 25 months thereafter, Power Financial may issue up to an aggregate of \$3 billion of First Preferred Shares and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis through Power Financial.

Lifeco

- On May 14, 2020, Lifeco issued \$600 million of 10-year 2.379% debentures at par, maturing on May 14, 2030. The net proceeds were used by Lifeco to repay the principal amount of its maturing 4.65% \$500 million debentures, together with accrued interest, on August 13, 2020 and for general corporate purposes.
- On July 8, 2020, Lifeco issued \$250 million of 30-year 2.981% debentures at par, maturing on July 8, 2050. On July 13, 2020, Lifeco reopened the 2.981% debenture offering due July 8, 2050 and on July 15, 2020, issued an additional \$250 million aggregate principal amount. The July 15, 2020 debentures were issued at a price of \$986.31 per \$1,000 principal amount value for an effective yield of 3.051%. The net proceeds are being used by Lifeco for general corporate purposes.
- On August 12, 2020, Great-West Lifeco U.S. Finance 2020, LP, a subsidiary of Lifeco, issued \$663 million (US\$500 million) 0.904% senior notes due August 12, 2025. The net proceeds were used by Lifeco to finance a portion of its acquisition in Personal Capital.
- On September 17, 2020, Empower Finance 2020, LP, a subsidiary of Lifeco, issued \$526 million (US\$400 million) 1.357% senior notes due September 17, 2027, \$526 million (US\$400 million) 1.776% senior notes due March 17, 2031 and \$921 million (US\$700 million) 3.075% senior notes due September 17, 2051. Lifeco used the net proceeds to finance a portion of its acquisition of the retirement services business of MassMutual and the fees, expenses and costs incurred in connection with the transaction.
- On November 2, 2020, Great-West Lifeco U.S. LLC, a subsidiary of Lifeco, established a 1-year \$635 million (US\$500 million) revolving credit facility with interest on the drawn balance equal to the LIBOR rate plus 1.0%. The facility was fully drawn as at December 31, 2020 as part of the MassMutual retirement services business acquisition financing plan. Lifeco intends to pay down the drawn amount during 2021.

The Corporation itself is not subject to externally imposed regulatory capital requirements; however, Lifeco and certain of its main subsidiaries, IGM’s subsidiaries and certain of the Corporation’s other subsidiaries are subject to regulatory capital requirements. Parts B and C of this MD&A further describe the capital management activities of Lifeco and IGM, respectively. See Note 21 to the Corporation’s 2020 Consolidated Financial Statements for additional information.

RATINGS

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

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

The "A+" rating assigned to the Corporation's debentures by S&P is the fifth highest of the 22 ratings used for long-term debt. A long-term debenture rated "A+" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

The "A" rating assigned to the Corporation's debentures by DBRS is the sixth highest of the 26 ratings used for long-term debt. A long-term debenture rated "A" implies that the capacity for repayment is substantial, but of lesser credit quality than AA, and may be vulnerable to future events, although qualifying negative factors are considered manageable.

The current rating by S&P of Power Financial's debentures is "A+" with a stable outlook. DBRS' current rating on Power Financial's debentures is "A (High)" with a stable trend.

Parts B and C of this MD&A provide information on the ratings of the debentures of Lifeco and IGM, respectively.

Risk Management

Power Corporation is an international management and holding company that focuses on financial services in North America, Europe and Asia. Its core holdings are leading insurance, retirement, wealth management and investment businesses including a portfolio of alternate asset investment platforms. The Corporation, through Power Financial, holds a controlling interest in Lifeco and IGM and also holds a joint controlling interest in Parjointco, which itself holds a controlling interest in GBL. As a result, the Corporation bears the risks associated with being a significant shareholder of these operating companies. A complete description of these risks is presented in their public disclosures. The respective boards of directors of Lifeco, IGM and GBL are responsible for the risk oversight function at their respective companies. The risk committee of the board of directors of Lifeco and IGM are responsible for its risk oversight. Certain officers of the Corporation are members of these boards and committees of these boards, including the risk committees, and, consequently, in their role as directors, they participate in the risk oversight function at the operating companies. Parts B and C of this MD&A further describe risks related to Lifeco and IGM, respectively.

RISK OVERSIGHT

The Corporation believes that a prudent approach to risk is achieved through a governance model that focuses on the active oversight of its investments. The Board of Directors and executive officers of the Corporation have overall oversight and responsibility for risk management associated with the investment activities and operations of the holding company and maintain a comprehensive and appropriate set of policies and controls.

The Board of Directors provides oversight and carries out its risk management mandate and addresses operational risks primarily through the following committees:

- The Audit Committee addresses risks related to financial reporting and cybersecurity.
- The Human Resources Committee considers risks associated with the Corporation's compensation policies and practices.
- The Governance and Nominating Committee oversees the Corporation's approach to appropriately address potential risks related to governance matters.
- The Related Party and Conduct Review Committee reviews and considers for approval transactions with related parties of the Corporation.

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, including the following risks and others discussed elsewhere in the MD&A, which investors should carefully consider before investing in securities of the Corporation. The following is a review of certain risks that could impact the financial condition and financial performance, and the value of the equity of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

The following section discusses the risks specific to the Corporation including the liquidity risk, credit risk and market risk of the Corporation including Power Financial and the investment platforms. Refer to Parts B and C of this MD&A for a specific discussion of the management of risk at Lifeco and IGM.

COVID-19

The Corporation is managing the risks associated with the COVID-19 pandemic utilizing its existing risk management framework. At Power Corporation and its group companies, the focus has continued to be on managing the safety and well-being of its people, maintaining operational effectiveness, ensuring that the group can serve its customers, assessing impacts on earnings, liquidity and capital, planning for different potential scenarios and engaging with stakeholders. The respective boards of directors of Lifeco, IGM, and GBL are responsible for the governance structures and processes to oversee the management of the risk and potential impacts presented by the current economic slowdown and other potential consequences due to COVID-19. Parts B and C of this MD&A further describe risks and processes in place related to Lifeco and IGM, respectively.

In response to the impact of COVID-19 on the Corporation and its employees, the following actions have been taken by the Corporation:

- The Business Continuity team, comprised of cross-functional leaders, is actively monitoring the situation and its effect on employees and operations, in accordance with updated government guidance;
- A work-from-home policy has been implemented for all employees, suspending all business travel and holding meetings virtually;
- Frequent communications and updates with employees consistent with the Corporation's priority of ensuring the health and well-being of employees, including communications related to technology and information risk;
- A plan and timeline for employees returning to the Corporation's offices will be managed prudently based on a number of factors, including public health and government directives.

The Corporation is monitoring its liquidity and capital. The Corporation held \$1.2 billion of cash and cash equivalents, including fixed income securities, and amounts held by Power Financial at December 31, 2020 and has no material debt maturities in the near term.

As a holding company, the Corporation's ability to pay dividends is dependent upon the Corporation receiving dividends from its principal operating subsidiaries, investment platforms and other investments. Lifeco and its subsidiaries are subject to restrictions set out in relevant corporate and insurance laws and regulations as well as specific guidance from regulators during the COVID-19 pandemic. The overall level of regulatory engagement with Lifeco's regulated subsidiaries has moderated somewhat to reflect the more stable conditions. However, regulators continue to monitor the impact of the pandemic to ensure that regulated companies maintain sufficient capital and liquidity. Lifeco is adhering to the guidance provided by regulators as follows:

- In Canada, on March 13, 2020, the Office of the Superintendent of Financial Institutions (OSFI) set expectations that Canadian banks and insurers should suspend share buybacks and not increase dividend payments.
- In the U.K., the Prudential Regulatory Authority (PRA) wrote to all insurance companies in March and April 2020 to remind them to manage their financial resources prudently to ensure they are able to meet their commitments to policyholders and maintain safety and soundness and to satisfy themselves that any dividends are prudent, consistent with their risk appetite and informed by a range of scenarios including very severe ones.
- In Ireland, the position of the Central Bank of Ireland (CBI) is that, as the impact of COVID-19 remains uncertain, insurance firms should, at this time, postpone any dividend payment distribution or similar transactions until they can forecast their costs and future revenues with a greater degree of certainty. The CBI has indicated that it will continue to review its position in conjunction with ongoing guidance from the European Insurance and Occupational Pensions Authority and the European Systemic Risk Board.

IGM's subsidiaries are also subject to minimum capital requirements. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the operating subsidiary to pay dividends.

The declaration and payment of dividends by the Corporation in future periods remains at the discretion of its Board of Directors and is dependent on the operating performance, profitability, financial position and creditworthiness of its operating subsidiaries, investment platforms and other investments, as well as on their ability to pay dividends which in turn will depend on the duration of the COVID-19 pandemic and the severity and duration of the financial impacts. Although there can be no assurance, to the extent that the pandemic abates and the actions taken by governments lead to a sustained global financial recovery within a reasonable time, the Corporation currently expects that its ability to pay dividends at current levels will not be adversely impacted.

The duration and impact of the COVID-19 pandemic is unknown at this time. While the conditions have become more stable, governments and central banks in the jurisdictions in which the Corporation and its operating subsidiaries operate have implemented and extended many of the measures introduced earlier in 2020 to deal with the economic impacts of the COVID-19 pandemic; however, the depth and length of the recession, rollout and efficacy of vaccines, and durability and effectiveness of government and central bank interventions are unknown. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.

STRATEGIC RISK

Strategic risk arises as a result of ineffective strategic decision making, inadequate strategies or a lack of responsiveness to important changes to the business environment, including macroeconomic or country risk events, or changes to the regulatory environment. In addition, strategic risk includes risks associated with the Corporation's holding company structure and potential future acquisitions.

The successful execution of the Corporation's investment strategy is uncertain as it requires suitable opportunities, careful timing and business judgment. The Corporation's approach consists in overseeing, through the Board of Directors, its operating businesses and investments with a view to generate long-term, sustainable growth in earnings and dividends. The Corporation aims to act like an owner with a long-term perspective and a strategic vision anchored in strong core values.

The Chief Executive Officer is responsible for developing the Corporation's proposed strategic plans, in light of emerging opportunities and risks and with a view to the Corporation's sustained profitable growth and long-term value creation, and for implementing the approved strategic plans. The Board of Directors is responsible for approving the long-term goals and objectives for the Corporation; and, after considering alternatives, approving the strategic plans developed by the Chief Executive Officer. The Board of Directors also monitors senior management's implementation of the approved plans; assesses the achievement of the Corporation's goals and objectives; reviews and approves on at least an annual basis management's financial plan; and reviews and approves any significant transactions and strategic capital management decisions regarding the Corporation.

LIQUIDITY RISK

Liquidity risk is the risk that the Corporation would not be able to meet all cash outflow obligations as they come due or be able to, in a timely manner, raise capital or monetize assets at normal market conditions.

As a holding company, Power Corporation's ability to meet its obligations, including payment of interest, other operating expenses and dividends, and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon dividends from its principal subsidiaries and other investments, and its ability to raise additional capital. Dividends to shareholders of Power Corporation are dependent on the operating performance, profitability, financial position and creditworthiness of its subsidiaries, jointly controlled corporations and associates, as well as on their ability to pay dividends. The payment of interest and dividends by the Corporation's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital ratios be maintained (refer to further discussion in the "COVID-19" section).

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

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

Liquidity is also available through the Corporation's lines of credit with Canadian banks. The Corporation has a committed line of credit of \$250 million and an uncommitted line of credit of \$100 million in which advances are at the banks' sole discretion. At December 31, 2020, an amount of €70 million (C\$110 million) was drawn on the committed line of credit and the uncommitted line of credit was not utilized.

The investment platforms including the controlled and consolidated investments have committed lines of credit of \$400 million with Canadian and U.S. banks (\$372 million was undrawn at December 31, 2020). Subsequent to year-end, Sagard 4 entered into a €100 million non-recourse credit facility with interest equal to LIBOR plus 1.70%. The credit facility is secured by the assets and unfunded commitments of Sagard 4.

Principal repayments on debentures and other debt instruments, and pension funding (other than those of Lifeco and IGM) represent the only significant contractual liquidity requirements. The debt instruments of Power Financial as well as those held by the investment platforms, including the controlled and consolidated investments, are non-recourse to the Corporation.

December 31, 2020	Payments due by period			Total
	Less than 1 year	1-5 years	After 5 years	
Debentures and other debt instruments	320	367	1,688	2,375
Future lease payments	20	43	112	175
Pension contributions	5	-	-	5
	345	410	1,800	2,555

Power Corporation and Power Financial believe their ongoing cash flows from operations, available cash balances and liquidity available through their lines of credit are sufficient to address their liquidity needs.

Power Corporation's management of liquidity risk has not changed materially since December 31, 2019.

Credit Risk and Market Risk

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

CREDIT RISK

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

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

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

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

The financial instruments held by the investment platforms include other loans and are subject to credit risk. The investment platforms regularly review the credit ratings of their counterparties and the maximum exposure to credit risk on these financial instruments is their carrying value.

The Corporation's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2019.

MARKET RISK

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

Foreign Exchange Risk

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

In its ongoing operations, the Corporation may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Corporation and Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. At December 31, 2020, approximately 4% of the \$1,226 million of Power Corporation and Power Financial's cash and cash equivalents and fixed income securities were denominated in foreign currencies, consisting of \$43 million in U.S. dollars, \$6 million in euros and \$3 million in Swiss Francs. At December 31, 2020, approximately 78% (82% as at December 31, 2019) of Power Corporation, Power Financial and investment platforms' cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

Most of Power Corporation's other investments are classified as available for sale. As such, unrealized gains and losses on these investments, resulting from foreign exchange rate variations, are recorded in other comprehensive income until realized. Power Corporation also holds, through its investment platforms, investments in foreign companies which are subject to foreign exchange risk. These investment funds are diversified among the U.S. dollar, the euro, the Chinese renminbi and the Hong Kong dollar which contributes to reducing the concentration of foreign exchange risk. At December 31, 2020, the impact of a 5% strengthening of the Canadian dollar against foreign currencies would result in an unrealized loss recorded in other comprehensive income of approximately \$103 million. Power Corporation's and Power Financial's debentures are denominated in Canadian dollars.

Interest Rate Risk

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

Power Corporation, Power Financial and the investment platforms' financial instruments do not have significant exposure to interest rate risk.

Equity Risk

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

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

Power Corporation also holds, through its investment platforms, shares of private and publicly traded companies which are subject to equity risk. At December 31, 2020, Sagard Holdings and Power Sustainable collectively held \$1,025 million in shares of publicly traded companies and \$985 million in shares of private companies, excluding equity interests held in consolidated investments. The investment platforms are diversified, investing in three distinct economic regions: Europe, North America and China. This diversification avoids a concentration in any one single economy.

At December 31, 2020, the impact of a 10% decrease in the value of other investments including those held by Sagard Holdings and Power Sustainable would have been a \$178 million unrealized loss recorded in other comprehensive income and \$16 million recorded in net earnings.

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

Power Corporation's management of financial instruments risk has not changed materially since December 31, 2019. For a further discussion of Power Corporation's risk management, please refer to Note 22 to the Corporation's 2020 Consolidated Financial Statements. Parts B and C of this MD&A describe respectively Lifeco's and IGM's management of financial instruments risk.

OPERATIONAL RISK

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

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

Cybersecurity risk

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

Regulatory compliance risk

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

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

REPUTATION RISK

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

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

SUSTAINABILITY RISK

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

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

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

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

EMERGING RISKS

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

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

- Review and analysis at the boards and committees of its operating companies around the world where local executives describe the emerging risks in their respective environments.
- The Corporation's executive officers act as the Corporation's risk management committee. They meet regularly to identify, analyze and review the Corporation's risks and to implement strategies to mitigate these risks.

Financial Instruments and Other Instruments

FAIR VALUE MEASUREMENT

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

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

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

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

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

At December 31	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	102,782	102,782	85,845	85,845
Available for sale	11,897	11,897	12,028	12,028
Mortgage and other loans				
Fair value through profit or loss	2,095	2,095	1,314	1,314
Shares				
Fair value through profit or loss	10,697	10,697	9,925	9,925
Available for sale	1,839	1,839	1,474	1,474
Investment properties	6,270	6,270	5,887	5,887
Funds held by ceding insurers	16,188	16,188	6,661	6,661
Derivative instruments	973	973	474	474
Reinsurance assets	130	130	127	127
Other assets	980	980	1,490	1,490
	153,851	153,851	125,225	125,225
Assets disclosed at fair value				
Bonds				
Loans and receivables	23,348	26,545	17,372	19,344
Mortgage and other loans				
Loans and receivables	32,546	34,607	30,461	31,420
Shares				
Available for sale ^[1]	124	124	150	150
Funds held by ceding insurers	137	137	80	80
	56,155	61,413	48,063	50,994
Total	210,006	215,264	173,288	176,219
Liabilities				
Liabilities recorded at fair value				
Investment contract liabilities	9,145	9,145	1,656	1,656
Derivative instruments	1,270	1,270	1,410	1,410
Other liabilities	311	311	430	430
	10,726	10,726	3,496	3,496
Liabilities disclosed at fair value				
Obligations to securitization entities	6,174	6,345	6,914	6,997
Power Corporation's debentures and other debt instruments	756	1,013	683	856
Non-recourse debentures and other debt instruments	13,299	15,206	9,255	10,595
Deposits and certificates	2,246	2,246	886	887
Other liabilities	951	951	838	838
	23,426	25,761	18,576	20,173
Total	34,152	36,487	22,072	23,669

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

See Note 27 to the Corporation's 2020 Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement at December 31, 2020.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

There were no major changes to the Corporation and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the twelve-month period ended December 31, 2020. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

	December 31, 2020			December 31, 2019		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Corporation	21	1	1	11	2	2
Power Financial	23	3	3	23	6	6
Lifeco	30,121	829	(392)	21,634	451	(930)
IGM	2,273	38	3	2,608	15	(2)
Other subsidiaries	260	102	88	288	-	(12)
	32,677	972	(298)	24,553	472	(938)
	32,698	973	(297)	24,564	474	(936)

During the twelve-month period ended December 31, 2020, there was an increase of \$8.1 billion in the notional amount of derivatives outstanding, primarily due to regular hedging activities, an increase in forward-settling mortgage-backed security transactions ("to-be-announced securities") and an increase in foreign exchange forwards related to the MassMutual transaction. The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) increased to \$973 million at December 31, 2020 from \$474 million at December 31, 2019. The increase was primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. dollars and receive Canadian dollars as well as an increase in the value of the call right held by Power Sustainable to purchase additional shares of Lion.

Parts B and C of this MD&A provide information on the types of derivative financial instruments used by Lifeco and IGM, respectively.

See Note 26 to the Corporation's 2020 Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

GUARANTEES

In the normal course of their operations, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation or subsidiary could be required to pay third parties, as some of these agreements do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. See also Note 32 to the Corporation's 2020 Consolidated Financial Statements.

LETTERS OF CREDIT

In the normal course of its reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit on maturity. See also Part B of this MD&A and Note 32 to the Corporation's 2020 Consolidated Financial Statements.

Contingent Liabilities

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation. See also Parts B and C of this MD&A and Note 31 to the Corporation's 2020 Consolidated Financial Statements.

Commitments and Contractual Obligations

	Payments due by period				Total
	Less than 1 year	1-5 years	More than 5 years	Undefined	
Power Corporation ^[1, 2]	111	3	654	609	1,377
Power Financial	14	3	254	-	271
Lifeco	3,361	1,896	7,803	-	13,060
IGM	2,658	4,701	2,253	-	9,612
Alternative asset investment platforms and consolidation entries	1,575	412	809	18	2,814
Total	7,719	7,015	11,773	627	27,134
Debtures and other debt instruments ^[3]	1,290	1,777	11,079	-	14,146
Obligations to securitization entities	1,543	4,610	21	-	6,174
Deposits and certificates	2,277	3	1	-	2,281
Lease obligations ^[4]	136	397	635	-	1,168
Purchase obligations ^[5]	262	112	37	-	411
Pension contributions ^[6]	348	-	-	-	348
Contractual commitments ^[1, 7]	1,863	116	-	627	2,606
Total	7,719	7,015	11,773	627	27,134

[1] Includes \$531 million of outstanding commitments from the Corporation to make future capital contributions to investment funds; the exact amount and timing of each capital contribution cannot be determined.

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

[3] Please refer to Note 14 and Note 15 to the Corporation's 2020 Consolidated Financial Statements for further information.

[4] Please refer to Note 16 to the Corporation's 2020 Consolidated Financial Statements for further information.

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

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

[7] Represents \$1,990 million of commitments by Lifeco. These contractual commitments are essentially commitments to investment transactions made in the normal course of operations, in accordance with Lifeco's policies and guidelines, which are to be disbursed upon fulfilment of certain contract conditions.

Income Taxes (Non-Consolidated Basis)

The Corporation, together with Power Financial, had at December 31, 2020, non-capital losses of \$937 million (\$860 million for which the benefits have not been recognized) available to reduce future taxable income (including capital gains). These losses expire from 2028 to 2040.

The Corporation, together with Power Financial, had at December 31, 2020, capital losses of \$227 million, for which the benefits have not been recognized, that can be used indefinitely to offset capital gains.

In addition, at December 31, 2020, deductible temporary differences for which the benefits have not been recognized were \$393 million.

Transactions with Related Parties

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

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

In the normal course of business, Canada Life and Putnam enter into various transactions with related companies which include providing group insurance benefits and subadvisory services, respectively, to other companies within the Power Corporation group of companies. Such transactions are at market terms and conditions. These transactions are reviewed by the appropriate related party and conduct review committee.

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

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

In October 2017, IGM and a subsidiary of Power Corporation obtained advance tax rulings which permitted tax loss consolidation transactions whereby shares of a subsidiary that generated tax losses may be acquired by IGM. The Corporation has recognized the benefit of the tax losses to be realized throughout this program. On each December 31 of 2020 and 2019, IGM acquired shares of such loss companies. The benefits from these tax loss consolidation arrangements ended on December 31, 2020.

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

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

On December 31, 2020, Power Corporation announced the completion of an internal share capital reorganization of Power Financial, which was intended to further simplify the Corporation's corporate structure. Following the internal reorganization, the Corporation directly holds all of the common shares of Power Financial (as some of such common shares were previously held by a wholly owned subsidiary of the Corporation). In April, July and October of 2020, Power Financial advanced amounts totalling \$996 million to the Corporation in exchange for non-interest-bearing promissory notes on demand to fund what would otherwise be its regularly declared distribution on its common shares. On December 31, 2020, Power Financial declared dividends on its common shares of \$1,328 million of which \$996 million were used to offset the promissory notes payable by the Corporation.

In 2020, Lifeco completed the sale of GLC to Mackenzie and Lifeco completed the acquisition of 100% of the equity of Personal Capital, including the interest held by IGM of 24.8%. In addition, Lifeco and Mackenzie jointly acquired a non-controlling interest in Northleaf. See also the "2020 Highlights" section and Note 30 to the Corporation's 2020 Consolidated Financial Statements for additional information.

Summary of Critical Accounting Estimates and Judgments

In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation uncertainty and areas where significant judgments are made by the management of the Corporation and the managements of its subsidiaries include: the entities to be consolidated or accounted for using the equity method, insurance and investment contract liabilities, fair value measurements, investment impairment, goodwill and intangible assets, income taxes and employee future benefits. These are described in the notes to the Corporation's 2020 Consolidated Financial Statements.

CONSOLIDATION

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

JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

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

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Measurement

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

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

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

Additional details regarding these estimates can be found in Note 12 to the Corporation's 2020 Consolidated Financial Statements. See also Part B of this MD&A.

FAIR VALUE MEASUREMENT

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

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

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

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

Fair values of bonds and mortgage and other loans recorded at fair value through profit or loss or available for sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure bonds and mortgage and other loans at fair value. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

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

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

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

c) Equity-release mortgages at fair value through profit or loss

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

d) Bonds and mortgage and other loans classified as loans and receivables

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

e) Investment properties

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

IMPAIRMENT OF INVESTMENTS

Investments are reviewed on an individual basis at the end of each reporting period to determine whether there is any objective evidence of impairment. The Corporation and its subsidiaries consider various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of collection. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating impairment.

For impaired bonds and mortgage and other loans classified as loans and receivables, provisions are established or impairments recorded to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish the net realizable value. Where available-for-sale bonds are determined to be impaired, the accumulated loss recorded in other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. As well, interest is no longer accrued on impaired bonds and mortgage and other loans and previous interest accruals are reversed in net investment income.

Impairment losses on available-for-sale shares are recorded in net investment income if the loss is significant or prolonged. Subsequent losses are recorded directly in net investment income.

GOODWILL AND INDEFINITE LIFE INTANGIBLES IMPAIRMENT TESTING

Goodwill and indefinite life intangible assets, including those resulting from an acquisition during the year, are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Indefinite life intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal.

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

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

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for eligible employees and advisors, unfunded supplementary employee retirement plans (SERP) for eligible employees, and unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependants. The Corporation and its subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. Expenses for defined benefit plans are actuarially determined using the projected unit credit method prorated on service, based upon management of the Corporation and of its subsidiaries' assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. The Corporation and its subsidiaries' accrued benefit liability in respect to defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets.

- The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined by reference to market yields on high-quality corporate bonds.
- If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.
- Net interest costs, administration expenses, current service costs, past service costs and curtailment and settlement gains or losses are included in operating and administrative expenses.
- Remeasurements represent actuarial gains and losses and the actual return on plan assets, less interest calculated at the discount rate, and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not subsequently reclassified to net earnings.
- The accrued benefit asset (liability) represents the plan surplus (deficit) and is included in other assets (other liabilities).
- Contributions to the defined contribution plans are expensed as incurred.

INCOME TAXES

Current income tax

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

Deferred income tax

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

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

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

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

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

Changes in Accounting Policies

There were no changes to the Corporation's accounting policies from those reported at December 31, 2019, except for:

The Corporation adopted the narrow-scope amendment to IFRS for IFRS 3, *Business Combinations*; IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; IAS 39, *Financial Instruments: Recognition and Measurement*; and IFRS 7, *Financial Instruments: Disclosures*, effective January 1, 2020. The adoption of these narrow-scope amendments did not have a significant impact on the Corporation's financial statements.

The Corporation actively monitors changes in IFRS, both proposed and released, by the International Accounting Standards Board (IASB) for potential impact on the Corporation.

Future Accounting Changes

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

Standard	Summary of future changes
IFRS 17 – Insurance Contracts	In May 2017, the IASB issued IFRS 17, <i>Insurance Contracts</i>, which will replace IFRS 4, <i>Insurance Contracts</i>. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard. In June 2020, the IASB finalized the amendments to IFRS 17, which included confirmation of the effective date for the standard of January 1, 2023. In addition, the IASB confirmed the extension to January 1, 2023 of the exemption for insurers to apply the financial instruments standard, IFRS 9 - <i>Financial Instruments</i>, keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework and project plan, for which substantial resources are being dedicated. Lifeco has assembled a project team that is working on implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. The project team is also monitoring developments from the IASB and various industry groups that Lifeco has representation on. Lifeco continues to make progress in implementing its project plan, with key policy decisions well advanced as well as significant progress on the technology solution. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. For the General Measurement Model and Variable Fee Approach, IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment cash flows: the current estimates of amounts that a company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin: the future profit for providing insurance coverage. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfilment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the CALM, where the discount rate was based on the yield curves of the assets supporting those liabilities (refer to the Corporation's significant accounting policies in Note 2 of the financial statements). The future profit for providing insurance coverage (including impacts of new business) is reflected in the initial recognition of insurance contract liabilities and then recognized into profit or loss over time as the insurance services are provided. IFRS 17 also requires Lifeco to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. Lifeco is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. As a result of the new valuation methodologies required under IFRS 17, Lifeco expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how the financial performance is reported in the statements of earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. Lifeco is also actively monitoring potential impacts on regulatory capital and its associated ratios and disclosures. Lifeco continues to assess all these impacts through its global implementation plan.

Standard	Summary of future changes
Current implication of IFRS 9 – Financial Instruments	In July 2014, the IASB issued a final version of IFRS 9, <i>Financial Instruments</i> to replace IAS 39, <i>Financial Instruments: Recognition and Measurement</i>. The standard provides changes to financial instruments accounting for the following: - Classification and measurement: this phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. - Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model. - Hedge accounting: this phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities. In September 2016, the IASB issued an amendment to IFRS 4, <i>Insurance Contracts</i> (IFRS 4). The amendment "Applying IFRS 9, <i>Financial Instruments</i> with IFRS 4, <i>Insurance Contracts</i>" provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows: <i>Deferral Approach</i>: provides the option to defer implementation of IFRS 9 until the effective date of the new insurance contract standard; or <i>Overlay Approach</i>: provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Corporation qualifies for the amendment and is applying the deferral approach to allow the adoption of both IFRS 9 and IFRS 17, simultaneously. The disclosure for the measurement and classification of the Corporation's portfolio investments provides most of the information required by IFRS 9. The Corporation and Lifeco continue to evaluate the impact of the adoption of this standard with the adoption of IFRS 17. GBL (held through Parjointco), a jointly controlled corporation, does not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted although not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation has decided to continue applying IAS 39 to GBL's results.
IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets	In May 2020, the IASB issued amendments to IAS 37, <i>Provisions, Contingent Liabilities, and Contingent Assets</i>. The amendments specify which costs should be included when assessing whether a contract will be loss-making. These amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The Corporation and its subsidiaries are evaluating the impact of the adoption of these amendments.
IFRS 16 – Leases	In May 2020, the IASB published amendments to IFRS 16, <i>Leases</i> amending the standard to provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendments are effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted. The Corporation and its subsidiaries do not anticipate a significant impact on the financial statements as a result of this amendment.
IFRS 9 – Financial Instruments IAS 39 – Financial Instruments: Recognition and Measurement; IFRS 7 – Financial Instruments: Disclosures; IFRS 4 – Insurance Contracts; and IFRS 16 – Leases	In August 2020, the IASB published <i>Interest Rate Benchmark Reform – Phase 2</i> which issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments provide relief from remeasurement impacts on financial instruments, and discontinuation of hedging relationships arising from reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual reporting periods beginning on or after January 1, 2021, with earlier application permitted. The Corporation and its subsidiaries are monitoring the interest rate benchmark reform process and have established an internal program to fully transition to alternative reference rates by the end of 2021. The transition to alternative reference rates is not expected to impact the Corporation and its subsidiaries' risk management strategy. The Corporation and its subsidiaries do not expect the adoption of these amendments to have a significant impact on the financial statements.

Disclosure Controls and Procedures

Based on their evaluations at December 31, 2020, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective at December 31, 2020.

Internal Control over Financial Reporting

The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with IFRS. The Corporation's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

As a management and holding company, the Corporation's business activities are carried out through its investments in businesses, each of which has its own management team. Accordingly, the Corporation's management relies on the certifications filed by management of Lifeco and IGM pursuant to National Instrument 52-109 – *52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*, as well as a sub-certification process by management at its other significant subsidiaries and investees in order to make determinations regarding the Corporation's disclosure controls and procedures and internal control over financial reporting.

The Corporation's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's internal control over financial reporting at December 31, 2020, based on the Internal Control – Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's internal control over financial reporting was effective at December 31, 2020.

There have been no changes in the Corporation's internal control over financial reporting during the three-month period ended December 31, 2020 which have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

LIMITATION ON DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROL OVER FINANCIAL REPORTING

As permitted by securities legislation, for the period ended December 31, 2020, Lifeco's management has limited the scope of its design of Lifeco's disclosure controls and procedures and Lifeco's internal control over financial reporting to exclude controls, policies and procedures of MassMutual, which Lifeco acquired on December 31, 2020.

During the year ended December 31, 2020, Lifeco incurred acquisition expenses of \$52 million post-tax (US\$40 million post-tax) which are included within operating and administrative expenses in the Consolidated Statements of Earnings. As the acquisition occurred on December 31, 2020, the reinsured business did not contribute to 2020 earnings. At December 31, 2020, the estimated total assets and goodwill acquired was \$115,169 million. Total estimated liabilities were \$112,232 million with the final valuation of the assets acquired and liabilities assumed expected to occur during 2021.

Power Financial Corporation

Power Financial relies on certain of the continuous disclosure documents filed by Power Corporation of Canada pursuant to an exemption from the requirements of National Instrument 51-102 – *Continuous Disclosure Obligations* ("NI 51-102") pursuant to Section 13.1 of NI 51-102 and as provided in the decision of the Autorité des marchés financiers and the Ontario Securities Commission, dated January 19, 2021, regarding Power Financial and Power Corporation. The following disclosure is provided further to the requirements of such decision:

At December 31, 2020	Lifeco	IGM	Corporate ^[1]	Effect of consolidation	Total Power Financial	Total Power Corporation
Total assets	600,490	16,062	24,904	(19,553)	621,903	629,104
Total liabilities	573,475	11,019	2,492	(26)	586,960	590,371

For the three-months ending December 31, 2020	Power Financial	Power Corporation
Cash flows from operations	2,141	1,982

[1] Includes Power Financial's investment activities including its investment in Portag3 I, Portag3 II, and Wealthsimple.

OTHER SUPPLEMENTAL INFORMATION OF POWER FINANCIAL

First Preferred Shares Issued and Outstanding

	December 31, 2020		December 31, 2019	
	Number of shares	Stated capital	Number of shares	Stated capital
		\$		\$
Series A ⁽ⁱ⁾	4,000,000	100	4,000,000	100
Series D ⁽ⁱⁱ⁾	6,000,000	150	6,000,000	150
Series E ⁽ⁱⁱ⁾	8,000,000	200	8,000,000	200
Series F ⁽ⁱⁱ⁾	6,000,000	150	6,000,000	150
Series H ⁽ⁱⁱ⁾	6,000,000	150	6,000,000	150
Series I ⁽ⁱⁱ⁾	8,000,000	200	8,000,000	200
Series K ⁽ⁱⁱ⁾	10,000,000	250	10,000,000	250
Series L ⁽ⁱⁱ⁾	8,000,000	200	8,000,000	200
Series O ⁽ⁱⁱ⁾	6,000,000	150	6,000,000	150
Series P ⁽ⁱⁱ⁾	8,965,485	224	8,965,485	224
Series Q ⁽ⁱⁱ⁾	2,234,515	56	2,234,515	56
Series R ⁽ⁱⁱ⁾	10,000,000	250	10,000,000	250
Series S ⁽ⁱⁱ⁾	12,000,000	300	12,000,000	300
Series T ⁽ⁱⁱ⁾	8,000,000	200	8,000,000	200
Series V ⁽ⁱⁱ⁾	10,000,000	250	10,000,000	250
		2,830		2,830

First Preferred Shares

[i] The Series A First Preferred Shares are entitled to a quarterly cumulative dividend, at a floating rate equal to one quarter of 70% of the average prime rates quoted by two major Canadian chartered banks and are redeemable at Power Financial's option, at \$25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[ii] The following First Preferred Shares series are entitled to non-cumulative preferential cash dividends payable quarterly. Power Financial may redeem for cash the First Preferred Shares in whole or in part, at Power Financial's option, with all declared and unpaid dividends to, but excluding, the date of redemption. The dividends and redemption terms are as follows:

First Preferred Shares	Cash dividends payable quarterly	Earliest issuer redemption date	Redemption price
	(\$/share)		(\$/share)
Non-cumulative, fixed rate			
Series D, 5.50%	0.343750	Currently redeemable	25.00
Series E, 5.25%	0.328125	Currently redeemable	25.00
Series F, 5.90%	0.368750	Currently redeemable	25.00
Series H, 5.75%	0.359375	Currently redeemable	25.00
Series I, 6.00%	0.375000	Currently redeemable	25.00
Series K, 4.95%	0.309375	Currently redeemable	25.00
Series L, 5.10%	0.318750	Currently redeemable	25.00
Series O, 5.80%	0.362500	Currently redeemable	25.00
Series R, 5.50%	0.343750	Currently redeemable	25.25
Series S, 4.80%	0.300000	Currently redeemable	25.50
Series V, 5.15%	0.321875	July 31, 2022	26.00
Non-cumulative, 5-year rate reset ^[1]			
Series P, 2.31% ^[2]	0.144125	January 31, 2021	25.00
Series T, 4.22%	0.263438	January 31, 2024	25.00
Non-cumulative, variable rate			
Series Q, 3-month Government of Canada Treasury Bill + 1.60% ^[2, 3]	Variable	January 31, 2021	25.00

[1] The dividend rate will reset on the earliest issuer redemption date and every fifth year thereafter at a rate equal to the 5-year Government of Canada bond yield plus a reset spread (1.60% for Series P and 2.37% for Series T). The holders have the option to convert their shares into non-cumulative floating rate First Preferred Shares subject to certain conditions on the earliest redemption date and every fifth year thereafter at a rate equal to the 3-month Government of Canada Treasury Bill rate plus the reset (Series Q for Series P and Series U for Series T) spread indicated.

[2] Pursuant to the terms of the Non-Cumulative 5-Year Rate Reset First Preferred Shares, Series P (Series P shares) and the Non-Cumulative Floating Rate First Preferred Shares, Series Q (Series Q shares), on February 1, 2021, holders of 137,539 Series P shares elected to convert their shares into Series Q shares and holders of 829,570 Series Q shares elected to convert their shares into Series P shares. As of February 1, 2021, Power Financial had 9,657,516 Series P shares and 1,542,484 Series Q shares. The dividend rate for the Series P shares was reset to an annual fixed rate of 1.998% or \$0.124875 per share cash dividend payable quarterly.

[3] The holders have the option to convert their shares into Series P First Preferred Shares, subject to certain conditions, on the earliest redemption date and on every five years thereafter.

Selected Annual Information

For the years ended December 31	2020	2019	2018
Total revenues	64,616	48,841	48,098
Assets under management [in billions]	1,142	941	860
Assets under administration [in billions]	2,195	1,823	1,571
Net earnings (attributable to participating shareholders)	1,994	1,108	1,287
per share – basic	3.08	2.53	2.77
per share – diluted	3.08	2.53	2.76
Adjusted net earnings (attributable to participating shareholders) ^[1]	1,943	1,275	1,145
per share – basic	3.00	2.92	2.46
Consolidated assets	629,104	477,250	452,303
Total financial liabilities	38,275	26,355	26,056
Debentures and other debt instruments	14,055	9,938	9,977
Shareholders' equity	22,207	14,174	15,118
Book value per participating share	31.38	30.98	30.38
Number of participating shares outstanding [millions]			
Participating preferred shares	54.9	48.9	48.9
Subordinate voting shares	622.4	377.6	417.1
Dividends per share [declared]			
Participating shares ^[2]	1.7900	2.0020	1.5045
First preferred shares of Power Corporation			
1986 Series ^[3]	1.0124	1.3824	1.2390
Series A	1.4000	1.4000	1.4000
Series B	1.3375	1.3375	1.3375
Series C	1.4500	1.4500	1.4500
Series D	1.2500	1.2500	1.2500
Series G	1.4000	1.4000	1.4000
First preferred shares of Power Financial			
Series A ^[4]	0.4839	0.6913	0.6301
Series D	1.3750	1.3750	1.3750
Series E	1.3125	1.3125	1.3125
Series F	1.4750	1.4750	1.4750
Series H	1.4375	1.4375	1.4375
Series I	1.5000	1.5000	1.5000
Series K	1.2375	1.2375	1.2375
Series L	1.2750	1.2750	1.2750
Series O	1.4500	1.4500	1.4500
Series P ^[5]	0.5765	0.5765	0.5765
Series Q ^[6]	0.5403	0.8125	0.7091
Series R	1.3750	1.3750	1.3750
Series S	1.2000	1.2000	1.2000
Series T ^[7]	1.0538	1.0538	1.0500
Series V	1.2875	1.2875	1.2875

[1] Adjusted net earnings and adjusted net earnings per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the section "Non-IFRS Financial Measures and Presentation" in this MD&A. In the first quarter of 2020, the definition of Adjustments was changed; refer to the section "Non-IFRS Financial Measures and Presentation" in this MD&A for more information. The comparative amounts have been adjusted to reflect this change.

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

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

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

[5] On January 31, 2021, the Series P were subject to a dividend rate reset for the five-year period from and including January 31, 2021. The dividend rate was reset to 1.998% or \$0.124875 per share in cash dividends payable quarterly.

[6] The Series Q First Preferred Shares are entitled to an annual non-cumulative dividend, payable quarterly at a floating rate equal to the 3-month Government of Canada Treasury Bill rate plus 1.60%.

[7] On January 31, 2019, the Series T were subject to a dividend rate reset for the five-year period from and including January 31, 2019. The dividend rate was reset to 4.215% or \$0.263438 per share in cash dividends payable quarterly.

Summary of Quarterly Results

	Q4	Q3	Q2	2020 Q1	Q4	Q3	Q2	2019 Q1
Total revenues ^[1]	17,954	14,682	20,631	11,349	11,729	15,422	3,824	17,866
Assets under management [in billions]	1,142	990	942	879	941	916	907	904
Assets under administration [in billions]	2,195	1,860	1,855	1,699	1,823	1,781	1,751	1,731
Net earnings (attributable to participating shareholders)	623	505	666	200	179	359	278	292
per share – basic ^[2]	0.92	0.75	0.99	0.36	0.42	0.84	0.64	0.63
per share – diluted ^[2]	0.92	0.75	0.99	0.36	0.42	0.84	0.64	0.63
Adjusted net earnings (attributable to participating shareholders) ^[3]	627	438	533	345	357	308	359	251
per share – basic ^[2, 3]	0.93	0.65	0.79	0.62	0.84	0.72	0.83	0.54
Adjustments ^[3, 4]	(4)	67	133	(145)	(178)	51	(81)	41
per share – basic ^[3]	(0.01)	0.10	0.20	(0.26)	(0.42)	0.12	(0.19)	0.09

[1] The decrease in revenues in the second quarter of 2019 is due to the impact of Lifeco's sale, via indemnity reinsurance, of its U.S. individual life insurance and annuity business to Protective Life.

[2] In the second quarter of 2019, pursuant to the PCC SIB, Power Corporation repurchased approximately 9.8% of its issued and outstanding subordinate voting shares.

[3] Adjusted net earnings and adjusted net earnings per share attributable to participating shareholders, and adjustments and adjustments per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the section "Non-IFRS Financial Measures and Presentation" in this MD&A. In the first quarter of 2020, the definition of Adjustments was changed; refer to the section "Non-IFRS Financial Measures and Presentation" in this MD&A for more information. The comparative amounts have been adjusted to reflect this change.

[4] The Corporation's share of Lifeco, IGM and GBL's Adjustments and Adjustments of the Corporation are as follows:

	Q4	Q3	Q2	2020 Q1	Q4	Q3	Q2	2019 Q1
Lifeco	7	99	105	(139)	(136)	23	(73)	39
IGM	(3)	(30)	4	(5)	(5)	1	(3)	2
GBL ^[1]	–	(2)	(3)	(1)	(15)	(4)	(5)	–
Alternative and other investments	–	–	27	–	(16)	–	–	–
Corporate operations	(8)	–	–	–	(6)	31	–	–
	(4)	67	133	(145)	(178)	51	(81)	41

[1] As previously reported by Pargesa.

Consolidated Balance Sheets

[in millions of Canadian dollars]		December 31, 2020	December 31, 2019
Assets			
Cash and cash equivalents [Note 4]		10,040	6,805
Investments [Note 5]			
Bonds		138,027	115,245
Mortgage and other loans		34,641	31,775
Shares		12,660	11,549
Investment properties		6,270	5,887
Loans to policyholders		8,387	8,601
		199,985	173,057
Funds held by ceding insurers [Note 6]		18,383	8,714
Reinsurance assets [Note 12]		22,121	20,707
Derivative financial instruments [Note 26]		973	474
Investments in jointly controlled corporations and associates [Note 7]		6,529	5,893
Owner-occupied properties and capital assets [Note 8]		3,217	3,063
Other assets [Note 9]		12,500	10,546
Deferred tax assets [Note 17]		1,082	802
Intangible assets [Note 10]		6,279	5,843
Goodwill [Note 10]		13,963	10,324
Investments on account of segregated fund policyholders [Note 11]		334,032	231,022
Total assets		629,104	477,250
Liabilities			
Insurance contract liabilities [Note 12]		208,902	174,521
Investment contract liabilities [Note 12]		9,145	1,656
Obligations to securitization entities [Note 13]		6,174	6,914
Power Corporation's debentures and other debt instruments [Note 14]		756	683
Non-recourse debentures and other debt instruments [Note 15]		13,299	9,255
Derivative financial instruments [Note 26]		1,270	1,410
Other liabilities [Note 16]		15,712	13,707
Deferred tax liabilities [Note 17]		1,081	1,497
Insurance and investment contracts on account of segregated fund policyholders [Note 11]		334,032	231,022
Total liabilities		590,371	440,665
Equity			
Stated capital [Note 18]			
Non-participating shares		956	960
Participating shares		9,557	726
Retained earnings		8,651	10,780
Reserves		3,043	1,708
Total shareholders' equity		22,207	14,174
Non-controlling interests [Note 20]		16,526	22,411
Total equity		38,733	36,585
Total liabilities and equity		629,104	477,250

Approved by the Board of Directors

Signed,
Siim A. Vanaselja
DirectorSigned,
R. Jeffrey Orr
Director

Consolidated Statements of Earnings

For the years ended December 31 [in millions of Canadian dollars, except per share amounts]	2020	2019
Revenues		
Premium income		
Gross premiums written [Note 12]	47,734	43,245
Ceded premiums	(4,735)	(18,756)
Total net premiums	42,999	24,489
Net investment income [Note 5]		
Regular net investment income	6,354	6,455
Change in fair value through profit or loss	5,792	6,987
Net investment income	12,146	13,442
Fee income	8,942	10,081
Other revenues	529	829
Total revenues	64,616	48,841
Expenses		
Policyholder benefits		
Gross [Note 12]	39,605	37,769
Ceded	(2,946)	(2,916)
Total net policyholder benefits	36,659	34,853
Changes in insurance and investment contract liabilities		
Gross	12,079	10,155
Ceded	(1,751)	(13,479)
Total net changes in insurance and investment contract liabilities	10,328	(3,324)
Policyholder dividends and experience refunds	1,500	1,562
Total paid or credited to policyholders	48,487	33,091
Commissions	3,439	3,480
Operating and administrative expenses [Note 23]	8,694	8,341
Financing charges [Note 24]	555	544
Total expenses	61,175	45,456
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,441	3,385
Share of earnings of investments in jointly controlled corporations and associates [Note 7]	170	212
Earnings before income taxes	3,611	3,597
Income taxes [Note 17]	77	554
Net earnings	3,534	3,043
Attributable to		
Non-controlling interests [Note 20]	1,488	1,883
Non-participating shareholders	52	52
Participating shareholders	1,994	1,108
	3,534	3,043
Earnings per participating share [Note 29]		
Net earnings attributable to participating shareholders		
– Basic	3.08	2.53
– Diluted	3.08	2.53

Consolidated Statements of Comprehensive Income

For the years ended December 31 [in millions of Canadian dollars]	2020	2019
Net earnings	3,534	3,043
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net earnings		
Net unrealized gains (losses) on available-for-sale investments		
Unrealized gains (losses)	829	498
Income tax (expense) benefit	(103)	(56)
Realized (gains) losses transferred to net earnings	(332)	(220)
Income tax expense (benefit)	17	10
	411	232
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	20	2
Income tax (expense) benefit	(6)	1
Realized (gains) losses transferred to net earnings	(21)	-
Income tax expense (benefit)	6	-
	(1)	3
Net unrealized foreign exchange gains (losses) on translation of foreign operations		
Unrealized gains (losses) on translation	122	(628)
Income tax (expense) benefit	(7)	3
Realized (gains) losses on translation transferred to net earnings	-	(13)
Unrealized gains (losses) on euro debt designated as hedge of net investments in foreign operations	(90)	100
Income tax (expense) benefit	12	(14)
	37	(552)
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	389	448
Income tax (expense) benefit	(9)	9
	380	457
Total - items that may be reclassified	827	140
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (losses) on defined benefit plans [Note 25]	(278)	(278)
Income tax (expense) benefit	60	64
Revaluation surplus on transfer to investment properties [Note 27]	11	-
Income tax (expense) benefit	(1)	-
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	(4)	(6)
Total - items that will not be reclassified	(212)	(220)
Other comprehensive income (loss)	615	(80)
Comprehensive income	4,149	2,963
Attributable to		
Non-controlling interests	1,496	1,754
Non-participating shareholders	52	52
Participating shareholders	2,601	1,157
	4,149	2,963

Consolidated Statements of Changes in Equity

For the year ended December 31, 2020	Stated capital			Reserves				
	Non- participating shares	Participating shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 28]	Total	Non- controlling interests	Total equity
[in millions of Canadian dollars]								
Balance, beginning of year	960	726	10,780	212	1,496	1,708	22,411	36,585
Net earnings	-	-	2,046	-	-	-	1,488	3,534
Other comprehensive income	-	-	-	-	607	607	8	615
Comprehensive income	-	-	2,046	-	607	607	1,496	4,149
Acquisition of non-controlling interests in Power Financial and issue of subordinate voting shares [Notes 18 and 20]	-	8,687	(2,847)	66	647	713	(6,555)	(2)
Related transaction costs [Note 20]	-	-	(46)	-	-	-	-	(46)
Effects of changes in ownership on Parjointco's interest in Pargesa [Note 7]	-	-	19	-	-	-	-	19
Related Corporation's share of Parjointco's transaction costs [Note 7]	-	-	(23)	-	-	-	-	(23)
Issue of participating preferred shares [Note 18]	-	206	-	-	-	-	-	206
Subordinate voting shares purchased and cancelled under Normal Course Issuer Bid [Note 18]	-	(110)	(83)	-	-	-	-	(193)
Repurchase of shares of the Corporation for cancellation	(4)	-	-	-	-	-	-	(4)
Dividends to shareholders								
Non-participating shares	-	-	(52)	-	-	-	-	(52)
Participating shares	-	-	(1,211)	-	-	-	-	(1,211)
Dividends to non-controlling interests	-	-	-	-	-	-	(926)	(926)
Expense for share-based compensation [Note 19]	-	-	-	48	-	48	23	71
Stock options exercised	-	48	-	(36)	-	(36)	30	42
Other effects of changes in capital and ownership of subsidiaries, and other	-	-	68	3	-	3	47	118
Balance, end of year	956	9,557	8,651	293	2,750	3,043	16,526	38,733

Consolidated Statements of Changes in Equity

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

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

Consolidated Statements of Cash Flows

For the years ended December 31 [in millions of Canadian dollars]	2020	2019
Operating activities		
Earnings before income taxes	3,611	3,597
Income tax paid, net of refunds	(542)	(477)
Adjusting items		
Change in insurance and investment contract liabilities	14,476	10,412
Change in funds held by ceding insurers	467	570
Change in reinsurance assets	(1,629)	(900)
Change in fair value through profit or loss	(5,792)	(6,987)
Other	(490)	406
	10,101	6,621
Financing activities		
Dividends paid		
By subsidiaries to non-controlling interests	(926)	(1,349)
Non-participating shares	(52)	(52)
Participating shares	(1,081)	(695)
	(2,059)	(2,096)
Issue of equity		
Subordinate voting shares by the Corporation [Note 18]	42	30
Participating preferred shares by the Corporation [Note 18]	206	-
Common shares and limited-life fund units by subsidiaries	584	336
Repurchase or redemption of equity		
Subordinate voting shares for cancellation under normal course issuer bid [Note 18]	(193)	-
Subordinate voting shares for cancellation under substantial issuer bid [Note 18]	-	(1,350)
Non-participating shares by the Corporation	(4)	(2)
Common shares and limited-life fund units by subsidiaries	(100)	(716)
Preferred shares by subsidiaries	-	(150)
Consideration paid for acquisition of Power Financial non-controlling interests, net of transaction costs	(48)	-
Corporation's increase in other debt instruments [Note 14]	63	37
Non-recourse debentures and other debt instruments [Note 15]		
Issue of debentures and senior notes	3,713	250
Repayment of debentures	(500)	(232)
Increase in other debt instruments	980	109
Decrease in other debt instruments	(131)	(121)
Repayment of lease liabilities [Note 16]	(110)	(99)
Increase in obligations to securitization entities	1,569	1,456
Repayments of obligations to securitization entities and other	(2,374)	(2,083)
	1,638	(4,631)
Investment activities		
Dispositions, repayments or maturities		
Bonds	23,248	25,860
Mortgage and other loans	5,051	4,778
Shares	5,039	3,959
Change in loans to policyholders	84	16
Acquisitions or investments		
Bonds	(28,768)	(25,621)
Mortgage and other loans	(5,395)	(5,691)
Shares	(5,377)	(3,610)
Jointly controlled corporations and associates	(304)	(130)
Business acquisitions and acquisition of assets, net of cash and cash equivalents acquired [Note 3]	(1,197)	(172)
Sale of business, net of cash and cash equivalents in a subsidiary [Note 3]	75	-
Investment in investment properties and other	(871)	(867)
	(8,415)	(1,478)
Effect of changes in exchange rates on cash and cash equivalents	(89)	(148)
Increase in cash and cash equivalents	3,235	364
Cash and cash equivalents, beginning of year	6,805	6,441
Cash and cash equivalents, end of year	10,040	6,805
Net cash from operating activities includes		
Interest and dividends received	5,252	5,765
Interest paid	670	686

Notes to the Consolidated Financial Statements

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

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The following abbreviations are used in these Consolidated Financial Statements:

CALM	Canadian Asset Liability Method	Northleaf	Northleaf Capital Group Ltd.
Canada Life	The Canada Life Assurance Company	Pargesa	Pargesa Holding SA
China AMC	China Asset Management Co., Ltd.	Parjointco	Parjointco SA
GBL	Groupe Bruxelles Lambert	Parjointco Switzerland	Parjointco Switzerland SA
Great-West Life & Annuity	Great-West Life & Annuity Insurance Company	Personal Capital	Personal Capital Corporation
IFRS	International Financial Reporting Standards	Portag3 I	Portag3 Ventures Limited Partnership
IGM or IGM Financial	IGM Financial Inc.	Portag3 II	Portag3 Ventures II Limited Partnership
IG Wealth Management	Investors Group Inc.	Potentia	Potentia Renewables Inc.
IntegraMed	IntegraMed America, Inc.	Power Corporation or the Corporation	Power Corporation of Canada
Irish Life	Irish Life Group Limited	Power Energy	Power Energy Corporation
Koho	Koho Financial Inc.	Power Financial	Power Financial Corporation
Lifeco	Great-West Lifeco Inc.	Putnam	Putnam Investments, LLC
Lumenpulse	Lumenpulse Group Inc.	Wealthsimple	Wealthsimple Financial Corp.
Mackenzie or Mackenzie Investments	Mackenzie Financial Corporation		

NOTE 1 Corporate Information

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

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

The Consolidated Financial Statements (financial statements) of Power Corporation as at and for the year ended December 31, 2020 were approved by its Board of Directors on March 17, 2021.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The financial statements of Power Corporation as at December 31, 2020 have been prepared in accordance with International Financial Reporting Standards.

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

The financial statements of Power Corporation include, on a consolidated basis, the results of Power Financial, a reporting issuer in all of the provinces and territories of Canada, and Lifeco and IGM Financial, which are both public companies. The amounts shown on the consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are mainly derived from the publicly disclosed consolidated financial statements of Lifeco and IGM Financial, all as at and for the year ended December 31, 2020. Certain notes to Power Corporation's financial statements are derived from the notes to the financial statements of Lifeco and IGM Financial.

REORGANIZATION

On February 13, 2020, the Corporation and Power Financial successfully completed a reorganization transaction (Reorganization) pursuant to which each common share of Power Financial held by holders other than the Corporation and certain of its affiliates was exchanged for 1.05 Subordinate Voting Shares of the Corporation and \$0.01 in cash.

The Corporation acquired 238,693,580 Power Financial Common Shares and issued 250,628,173 Subordinate Voting Shares at a price of \$34.66 per Subordinate Voting Share, representing total consideration of \$8.7 billion. Subsequent to the Reorganization, the Corporation held 100% of the issued and outstanding Common Shares of Power Financial and the Common Shares were delisted from the TSX.

On February 12, 2020, in accordance with the Pre-emptive Right in favour of holders of Participating Preferred Shares included in the Corporation's articles (the Pre-emptive Right), the Corporation issued 6,006,094 Participating Preferred Shares to holders who duly exercised the Pre-emptive Right at a price of \$34.27 per Participating Preferred Share, 6 million of which were purchased by the Corporation's controlling shareholder. The Pre-emptive Right entitled holders of Participating Preferred Shares the right to acquire from the Corporation, on a pro rata basis, an aggregate number of Participating Preferred Shares that was equal to 12% of the number of Subordinate Voting Shares issued in connection with the Reorganization.

SUBSIDIARIES

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

JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES

Jointly controlled corporations are entities in which unanimous consent is required for decisions relating to relevant activities. Associates are entities in which the Corporation exercises significant influence over the entity's operating and financial policies, without having control or joint control. Investments in jointly controlled corporations and associates are accounted for using the equity method. Under the equity method, the Corporation recognizes its share of net earnings (losses), other comprehensive income (loss), the changes in equity of the jointly controlled corporations and associates, and dividends received. In the case of investments in jointly controlled corporations and associates held by entities that meet the definition of a venture capital organization, the Corporation has elected to measure certain of its investments in jointly controlled corporations and associates at fair value through profit or loss.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATES**

The financial statements of Power Corporation include the operations of the following direct and indirect subsidiaries and investments in jointly controlled corporations and associates:

Corporations	Classification	Incorporated in	Primary business operation	% equity interest	
				2020	2019
Corporate					
Power Corporation of Canada	Parent	Canada	Holding company		
China Asset Management Co., Ltd. ^[1]	Associate	China	Asset management company	27.8	27.8
Power Financial Corporation	Subsidiary	Canada	Holding company	100.0	100.0
Publicly traded companies					
Great-West Lifeco Inc. ^[2]	Subsidiary	Canada	Financial services holding company	70.8	70.9
The Canada Life Assurance Company	Subsidiary	Canada	Insurance and wealth management	100.0	100.0
Irish Life Group Limited	Subsidiary	Ireland	Insurance and wealth management	100.0	100.0
Great-West Life & Annuity Insurance Company	Subsidiary	United States	Financial services	100.0	100.0
Personal Capital Corporation	Subsidiary	United States	Financial services	100.0	24.8
Putnam Investments, LLC ^[3]	Subsidiary	United States	Financial services	96.3	96.5
IGM Financial Inc. ^[4]	Subsidiary	Canada	Wealth and asset management	66.0	66.0
IG Wealth Management	Subsidiary	Canada	Financial services	100.0	100.0
Mackenzie Financial Corporation	Subsidiary	Canada	Investment manager	100.0	100.0
Northleaf Capital Group Ltd. ^[5]	Associate	Canada	Investment manager	70.0	-
Parjointco SA	Joint control	Belgium	Holding company	50.0	50.0
Pargesa SA	Subsidiary	Switzerland	Holding company	100.0	55.5
Groupe Bruxelles Lambert	Subsidiary	Belgium	Holding company	28.2	50.0
Alternative asset investment platforms and other					
Power Sustainable Capital Inc.	Subsidiary	Canada	Alternative asset manager	100.0	100.0
Potentia Renewables Inc.	Subsidiary	Canada	Renewable energy	100.0	100.0
Nautilus Solar Energy, LLC	Subsidiary	United States	Renewable energy	100.0	100.0
Sagard Holdings Inc.	Subsidiary	Canada	Alternative asset manager	100.0	100.0
Wealthsimple Financial Corp. ^[6]	Subsidiary	Canada	Financial services	74.9	84.9
Portag3 Ventures LP ^[7]	Subsidiary	Canada	Venture capital fund	100.0	100.0
Portag3 Ventures II LP ^[8]	Subsidiary	Canada	Venture capital fund	27.9	27.9
Sagard Credit Partners, LP	Subsidiary	Canada	Credit fund	18.0	18.0
Sagard Healthcare Royalty Partners, LP	Subsidiary	Cayman Islands	Royalty fund	13.3	-
Sagard 4	Subsidiary	France	Private equity fund	38.2	-
Sagard New Gen	Subsidiary	France	Private equity fund	54.4	-
Standalone Businesses					
Lumenpulse Group Inc.	Subsidiary	Canada	Sustainable energy	60.5	60.5
Peak Achievement Athletics Inc.	Joint control	Canada	Manufacturer of sports equipment and apparel	42.6	42.6
The Lion Electric Co.	Associate	Canada	Manufacturer of zero-emission vehicles	44.1	44.1

[1] Power Corporation and Mackenzie Investments each hold an equity interest of 13.9% in China AMC.

[2] Power Financial holds a 66.8% equity interest and IGM Financial holds a 4.0% equity interest in Lifeco.

[3] Lifeco holds 100% of the voting shares and 96.5% of the total outstanding shares.

[4] Power Financial holds a 62.1% equity interest and Canada Life holds a 3.9% equity interest in IGM Financial.

[5] Represents a 49.9% non-controlling voting interest. Held through an acquisition vehicle 80% owned by Mackenzie and 20% by Lifeco.

[6] Power Financial, Portag3 and IGM Financial hold an equity interest of 18.7%, 14.8% and 41.4%, respectively, in Wealthsimple.

[7] Power Financial holds a 63.0% equity interest and Lifeco and IGM Financial each hold an equity interest of 18.5% in Portag3.

[8] Power Financial, Lifeco and IGM Financial each hold an equal equity interest of 7.7% in Portag3 II and Sagard Holdings Inc., holds 4.7% equity interest in Portag3 II.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**CHANGE IN ACCOUNTING POLICIES**

The Corporation adopted the narrow-scope amendment to IFRS for IFRS 3, *Business Combinations*; IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; IAS 39, *Financial Instruments: Recognition and Measurement*; and IFRS 7, *Financial Instruments: Disclosures*, effective January 1, 2020. The adoption of these narrow-scope amendments did not have a significant impact on the Corporation's financial statements.

IMPACT OF COVID-19 ON SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The outbreak of the novel strain of coronavirus, specifically identified as the "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have responded with significant monetary and fiscal interventions designed to stabilize economic conditions. Equity markets in particular have been volatile, experiencing material and rapid declines in the first quarter of 2020; however, during the remainder of 2020, the markets have experienced recoveries.

The duration and impact of the COVID-19 pandemic is unknown at this time. While the conditions have become more stable, governments and central banks in the jurisdictions in which the Corporation and its operating subsidiaries operate have implemented and extended many of the measures introduced earlier in 2020 to deal with the economic impacts of the COVID-19 pandemic; however, the depth and length of the recession, rollout and efficacy of vaccines and durability and effectiveness of government and central bank interventions is unknown. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.

The results of the Corporation reflect the judgments of the managements of the Corporation and its subsidiaries regarding the impact of prevailing market conditions related to global credit, equities, investment properties and foreign exchange, as well as, with respect to Lifeco, prevailing health and mortality experience market conditions.

The provision for future credit losses within Lifeco's insurance contract liabilities relies upon investment credit ratings. Lifeco'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 credit rating. Given rapid market changes, third-party credit rating changes may lag developments in the current environment.

The fair value of investments, the valuation of goodwill and other intangible assets, the valuation of insurance contract liabilities and the recoverability of deferred tax asset carrying values reflect the judgments of the managements of the Corporation and its subsidiaries.

Given the uncertainty surrounding the current environment, the actual financial results could differ from the estimates made in the preparation of these financial statements.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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

Item or balance affected by judgments or estimates	Applied by	Key judgments or estimates	Corresponding note(s)
Evaluation of control	Management of the Corporation and of its subsidiaries	Determining if the Corporation has the ability to direct the relevant activities of the subsidiaries or other structured entities in order to derive variable returns. Judgment is exercised in evaluating the variable returns and in determining the extent to which the Corporation has the ability to exercise power to affect variable returns.	n/a
Fair value of assets and liabilities acquired	Management of the Corporation and of its subsidiaries	Determining the fair value of assets acquired and liabilities assumed in a business combination requires judgment.	3
Evaluation of significant influence and joint control	Management of the Corporation and of its subsidiaries	Determining if the Corporation exercises significant influence over the entity's operating and financing policies, or if unanimous consent is required for decisions relating to relevant activities.	n/a
Classification of insurance and reinsurance contracts	Management of Lifeco	Determining whether arrangements should be accounted for as insurance, investment or service contracts.	12
Valuation of insurance and certain investment contract liabilities in accordance with CALM	Management of Lifeco	Determining the actuarial assumptions, including interest rates, inflation, policyholder behaviour, mortality and morbidity of policyholders.	12

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

Item or balance affected by judgments or estimates	Applied by	Key judgments or estimates	Corresponding note(s)
Provision for future credit losses within certain insurance contract liabilities	Management of Lifeco	The provision for future credit losses within insurance contract liabilities is based on investment credit ratings. Lifeco's practice is to use third-party independent credit ratings where available. Judgment is required when setting credit ratings for instruments that do not have a third-party rating.	12
Fair value of financial instruments	Management of the Corporation and of its subsidiaries	Determining fair value inputs to establish the fair value of financial instruments, particularly those items categorized within Level 3 of the fair value hierarchy.	27
Fair value of equity-release mortgages	Management of Lifeco	Internal valuation models are used to determine the fair value of equity-release mortgages. These valuations are adjusted by applying management judgments and estimates for material changes in projected asset cash flows and discount rates.	5
Fair value of investment properties	Management of Lifeco	Independent qualified appraisal services are used to determine the fair value of investment properties, which use assumptions that include judgments and estimates. These appraisals are adjusted by applying management's judgments and estimates for material changes in property cash flows, capital expenditures or general market conditions.	5
Initial recognition and measurement of goodwill and intangible assets, as well as subsequent measurement	Management of the Corporation and of its subsidiaries	Evaluating the synergies and future benefits in business combinations for initial recognition and measurement of goodwill and intangible assets as well as determining the recoverable amount. The determination of the recoverable amount of the cash generating units (to which goodwill and intangible assets are assigned) relies upon valuation methodologies that require the use of estimates.	3, 10
Determination of cash generating unit groupings	Management of the Corporation and of its subsidiaries	Determining the cash generating unit groupings as the lowest level at which the assets are monitored for internal reporting purposes.	10
Measurement of the pension plans and other post-employment benefit obligations	Management of the Corporation and of its subsidiaries	Determining the actuarial assumptions used to determine the expense and defined benefit obligations for pension plans and other post-employment benefits. Management reviews the previous experience of related plan members and market conditions, including interest rates and inflation rates, in evaluating the assumptions used in determining the expense for the current year.	25
Recognition and measurement of tax provisions and tax assets and liabilities	Management of the Corporation and of its subsidiaries	Interpreting the relevant tax laws, regulations and legislation where the Corporation and its subsidiaries operate to determine the tax provisions and the carrying amounts of the tax assets and liabilities.	17
Recoverability of deferred tax asset carrying values	Management of the Corporation and of its subsidiaries	Assessing the recoverability of the deferred tax asset carrying values based on future years' taxable income projections.	17
Recognition and measurement of legal and other provisions	Management of the Corporation and of its subsidiaries	Assessing whether a past event will result in a probable outflow of economic resources to settle the obligation. Judgment is used in evaluating the possible outcomes and risks to determine the best estimate of the provision at the balance sheet date.	31

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

Item or balance affected by judgments or estimates	Applied by	Key judgments or estimates	Corresponding note(s)
Derecognition of securitization mortgages	Management of IGM	Determining whether securitized mortgages are derecognized requires judgment with respect to the extent to which the risks and rewards of ownership are transferred.	13
Classification of purchases and sales of portfolio investments in the statements of cash flows	Management of Lifeco	Determining if purchases and sales of portfolio investments are long term in nature, which would result in recording them within investment activities in the consolidated statements of cash flows.	n/a
Classification of revenues and expenses in sub-advisor arrangements	Management of Lifeco	Determining whether Lifeco retains the primary obligation with a client in sub-advisor arrangements. Where Lifeco retains the primary obligation to the client, revenues and expenses are recorded on a gross basis.	n/a
Deferred selling commissions	Management of IGM	Determining whether the client or the fund is the customer, as well as the assessment of the recoverability of the deferred selling commissions.	9
Deferred acquisition costs	Management of Lifeco	Determining whether deferred acquisition costs can be recognized on the consolidated balance sheets. Deferred acquisition costs are recognized if Lifeco's management determines the costs meet the definition of an asset and are incremental and related to the issuance of the investment contract.	9
Classification of non-controlling interests in limited-life fund units and redeemable fund units	Management of the Corporation and of its subsidiaries	Determining if non-controlling interests in funds are classified as liabilities or equity depends on whether an obligation exists to distribute residual net assets to non-controlling interests on liquidation in the form of cash or another financial asset or assets delivered in kind. Judgment is used to determine what the governing documents of each entity require or permit in this regard.	16

SIGNIFICANT ACCOUNTING POLICIES**REVENUE RECOGNITION**

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

Lifeco

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

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

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

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

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

Wealth management revenue is earned for providing financial planning, investment advisory and related financial services. Revenues from financial advisory fees and investment management and related administration fees are based on the net asset value of investment funds or other assets under advisement and are accrued as services are performed. Distribution revenue associated with insurance and banking products and services are also recognized on an accrual basis while distribution fees derived from investment fund and securities transactions are recognized on a trade-date basis.

Asset management revenue related to investment management advisory and administrative services is based on the net asset value of investment funds and other assets under management and is accrued as services are performed.

Wealth and asset management revenue are included in fee income in the statements of earnings.

Other subsidiaries

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

Revenues from electricity sales are recognized when the electricity is delivered at the customer's connection point and there is no unfulfilled obligation that could affect the customer's acceptance of the electricity. Revenues from electricity sales are included in other revenues in the statements of earnings.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, current operating accounts, overnight bank and term deposits and fixed income securities with an original term to maturity of three months or less. Overdraft bank balances are included in other liabilities.

INVESTMENTS

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

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

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

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

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

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

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

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

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

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

Fair value measurement

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

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

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

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

Fair values of bonds and mortgage and other loans recorded at fair value through profit or loss or available for sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. The Corporation and its subsidiaries obtain quoted prices in active markets, when available, for identical assets at the balance sheet dates to measure bonds and mortgage and other loans at fair value. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

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

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

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

c) Equity-release mortgages at fair value through profit or loss

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

d) Bonds and mortgage and other loans classified as loans and receivables

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

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**e) Investment properties**

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

Impairment

Investments are reviewed on an individual basis at the end of each reporting period to determine whether there is any objective evidence of impairment. The Corporation and its subsidiaries consider various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal.

Investments are deemed to be impaired when there is no longer reasonable assurance of collection. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating impairment.

For impaired bonds and mortgage and other loans classified as loans and receivables, provisions are established or impairments recorded to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish the net realizable value. Where available-for-sale bonds are determined to be impaired, the accumulated loss recorded in other comprehensive income is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. As well, interest is no longer accrued on impaired bonds and mortgage and other loans and previous interest accruals are reversed in net investment income.

Impairment losses on available-for-sale shares are recorded in net investment income if the loss is significant or prolonged. Subsequent losses are recorded directly in net investment income.

Securities lending

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

TRANSACTION COSTS

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

OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

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

Owner-occupied properties and capital assets are carried at cost less accumulated depreciation, disposals and impairments. Capital assets include equipment, renewable power generating assets, furniture and fixtures. Owner-occupied properties, equipment, renewable power generating assets, furniture and fixtures are depreciated using the straight-line method, over their estimated useful lives, as follows: i) owner-occupied properties (10 to 50 years); and ii) capital assets (3 to 25 years).

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

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

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

LEASES

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

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

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

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

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

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

OTHER ASSETS

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

Deferred acquisition costs

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

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**Deferred selling commissions**

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

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

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

ASSETS AND LIABILITIES HELD FOR SALE

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

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

BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS

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

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

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

Impairment testing

Goodwill and indefinite life intangible assets, including those resulting from an acquisition during the year, are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Indefinite life intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal.

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

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

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

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

INSURANCE AND INVESTMENT CONTRACT LIABILITIES**Contract classification**

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

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

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

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

Measurement

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

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

REINSURANCE CONTRACTS

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

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

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

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

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

FUNDS HELD BY CEDING INSURERS / FUNDS HELD UNDER REINSURANCE CONTRACTS

On the asset side, funds held by ceding insurers are assets that would normally be paid to Lifeco but are retained by the cedant to reduce potential credit risk. Under certain forms of reinsurance contracts it is customary for the cedant to retain amounts on a funds-withheld basis supporting the insurance or investment contract liabilities ceded. For the funds-withheld assets where the underlying asset portfolio is managed by Lifeco, the credit risk is retained by Lifeco. The funds-withheld balance where Lifeco assumes the credit risk is measured at the fair value of the underlying asset portfolio with the change in fair value recorded in net investment income. See Note 6 for funds held by ceding insurers that are managed by Lifeco. Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants. Funds-withheld assets on these contracts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

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

POLICYHOLDER BENEFITS

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

DERECOGNITION OF SECURITIZED MORTGAGES

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

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

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

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**OTHER FINANCIAL LIABILITIES**

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

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

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

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

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for eligible employees and advisors, unfunded supplementary employee retirement plans (SERP) for eligible employees, and unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependants. The Corporation and its subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. Expenses for defined benefit plans are actuarially determined using the projected unit credit method prorated on service, based upon management of the Corporation and of its subsidiaries' assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. The Corporation and its subsidiaries' accrued benefit liability in respect to defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets.

The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined by reference to market yields on high-quality corporate bonds.

If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.

Net interest costs, administration expenses, current service costs, past service costs and curtailment and settlement gains or losses are included in operating and administrative expenses.

Remeasurements represent actuarial gains and losses and the actual return on plan assets, less interest calculated at the discount rate, and changes in the asset ceiling. Remeasurements are recognized immediately through other comprehensive income and are not subsequently reclassified to net earnings.

The accrued benefit asset (liability) represents the plan surplus (deficit) and is included in other assets (other liabilities).

Contributions to the defined contribution plans are expensed as incurred.

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

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

Current income tax

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

Deferred income tax

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

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

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

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

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

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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

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

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

Fair value hedges

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

Cash flow hedges

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

Net investment hedges

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

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

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

EQUITY

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

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

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

SHARE-BASED PAYMENTS

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

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

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**FOREIGN CURRENCY TRANSLATION**

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

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

Translation of net investment in foreign operations

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

EARNINGS PER PARTICIPATING SHARE

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

COMPARATIVE FIGURES

In 2020, the Corporation modified the presentation of its segmented disclosure to reflect the Reorganization and the Corporation's strategy. Power Financial's results, including its corporate operations, were previously presented separately by the Corporation. Subsequent to the Reorganization, the corporate operations of both the Corporation and Power Financial are being managed together and have been presented on a combined basis as Corporate. Alternative asset investment platforms and other have been presented separately, which is consistent with the management and oversight structure. The comparative figures have been restated to conform to the current year's presentation (Note 33).

Effective January 1, 2020, Lifeco divided its Europe activities into two activities: Europe and Capital Risk Solutions. The adjustment had no impact on the net earnings or cash flows of the Corporation. This resulted in a change to comparative figures (Notes 12 and 22).

During the year, the Corporation reclassified certain comparative figures for disclosure items to conform to the current year's presentation. Debentures and other debt instruments have been disaggregated on the balance sheets to distinguish those issued by the Corporation and those issued by subsidiaries that are non-recourse to the Corporation. The related cash flows within financing activities have also been disaggregated in the statements of cash flows. These reclassifications had no impact on the total assets, liabilities, equity, net earnings or total cash flows of the Corporation.

NOTE 2 Basis of Presentation and Summary of Significant Accounting Policies (continued)**FUTURE ACCOUNTING CHANGES**

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

Standard	Summary of future changes
IFRS 17 – Insurance Contracts	In May 2017, the IASB issued IFRS 17, <i>Insurance Contracts</i>, which will replace IFRS 4, <i>Insurance Contracts</i>. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard. In June 2020, the IASB finalized the amendments to IFRS 17, which included confirmation of the effective date for the standard of January 1, 2023. In addition, the IASB confirmed the extension to January 1, 2023 of the exemption for insurers to apply the financial instruments standard, IFRS 9 - <i>Financial Instruments</i>, keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The adoption of IFRS 17 is a significant initiative for Lifeco supported by a formal governance framework and project plan, for which substantial resources are being dedicated. Lifeco has assembled a project team that is working on implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. The project team is also monitoring developments from the IASB and various industry groups that Lifeco has representation on. Lifeco continues to make progress in implementing its project plan, with key policy decisions well advanced as well as significant progress on the technology solution. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. For the General Measurement Model and Variable Fee Approach, IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment cash flows: the current estimates of amounts that a company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin: the future profit for providing insurance coverage. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfilment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the CALM, where the discount rate was based on the yield curves of the assets supporting those liabilities (refer to the Corporation's significant accounting policies in Note 2 of these financial statements). The future profit for providing insurance coverage (including impacts of new business) is reflected in the initial recognition of insurance contract liabilities and then recognized into profit or loss over time as the insurance services are provided. IFRS 17 also requires Lifeco to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be onerous. Lifeco is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates. As a result of the new valuation methodologies required under IFRS 17, Lifeco expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how Lifeco accounts for its insurance contracts and how the financial performance is reported in the statements of earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. Lifeco is also actively monitoring potential impacts on regulatory capital and its associated ratios and disclosures. Lifeco continues to assess all these impacts through its global implementation plan.

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

Standard	Summary of future changes
Current implication of IFRS 9 – Financial Instruments	In July 2014, the IASB issued a final version of IFRS 9, <i>Financial Instruments</i> to replace IAS 39, <i>Financial Instruments: Recognition and Measurement</i>. The standard provides changes to financial instruments accounting for the following: - Classification and measurement: this phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. - Impairment methodology: this phase replaces the current incurred loss model for impairment of financial assets with an expected loss model. - Hedge accounting: this phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities. In September 2016, the IASB issued an amendment to IFRS 4, <i>Insurance Contracts</i> (IFRS 4). The amendment "Applying IFRS 9, <i>Financial Instruments</i> with IFRS 4, <i>Insurance Contracts</i>" provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows: <i>Deferral Approach</i>: provides the option to defer implementation of IFRS 9 until the effective date of the new insurance contract standard; or <i>Overlay Approach</i>: provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Corporation qualifies for the amendment and is applying the deferral approach to allow the adoption of both IFRS 9 and IFRS 17, simultaneously. The disclosure for the measurement and classification of the Corporation's portfolio investments provides most of the information required by IFRS 9. The Corporation and Lifeco continue to evaluate the impact of the adoption of this standard with the adoption of IFRS 17. GBL (held through Parjointco), a jointly controlled corporation, does not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted although not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation has decided to continue applying IAS 39 to GBL's results.
IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets	In May 2020, the IASB issued amendments to IAS 37, <i>Provisions, Contingent Liabilities, and Contingent Assets</i>. The amendments specify which costs should be included when assessing whether a contract will be loss-making. These amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The Corporation and its subsidiaries are evaluating the impact of the adoption of these amendments.
IFRS 16 – Leases	In May 2020, the IASB published amendments to IFRS 16, <i>Leases</i> amending the standard to provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendments are effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted. The Corporation and its subsidiaries do not anticipate a significant impact on the financial statements as a result of this amendment.
IFRS 9 – Financial Instruments IAS 39 – Financial Instruments: Recognition and Measurement; IFRS 7 – Financial Instruments: Disclosures; IFRS 4 – Insurance Contracts; and IFRS 16 – Leases	In August 2020, the IASB published <i>Interest Rate Benchmark Reform – Phase 2</i> which issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments provide relief from remeasurement impacts on financial instruments, and discontinuation of hedging relationships arising from reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual reporting periods beginning on or after January 1, 2021, with earlier application permitted. The Corporation and its subsidiaries are monitoring the interest rate benchmark reform process and have established an internal program to fully transition to alternative reference rates by the end of 2021. The transition to alternative reference rates is not expected to impact the Corporation and its subsidiaries' risk management strategy. The Corporation and its subsidiaries do not expect the adoption of these amendments to have a significant impact on the financial statements.

NOTE 3 Business Acquisitions, Disposals and Other Transactions**LIFECO****Acquisition of MassMutual Retirement Services Business**

On December 31, 2020 Great-West Life & Annuity completed the purchase, via indemnity reinsurance, of the retirement services business of Massachusetts Mutual Life Insurance Company (MassMutual). Lifeco assumed the economics and risks associated with the reinsured business.

Lifeco paid a ceding commission of \$2,937 million (US\$2,312 million) net of working capital adjustments to MassMutual, and funded the transaction with existing cash, short-term debt and \$1,973 million (US\$1,500 million) in long-term debt issued on September 17, 2020 (Note 15). The assets acquired, liabilities assumed and ceding commission paid at the closing of this transaction are subject to future adjustments. The initial amounts assigned to the assets acquired, goodwill, and liabilities assumed and reported as at December 31, 2020 are as follows:

Assets acquired and goodwill

Cash and cash equivalents	2,594
Bonds	12,006
Mortgage loans	2,326
Funds held by ceding insurers	9,928
Goodwill	2,827
Other assets	403
Deferred tax assets	300
Investments on account of segregated fund policyholders	84,785
	115,169

Liabilities assumed

Insurance contract liabilities	22,316
Investment contract liabilities	4,984
Other liabilities	147
Investment and insurance contracts on account of segregated fund policyholders	84,785
	112,232

Net assets acquired

2,937

As at December 31, 2020, the accounting for the acquisition is not finalized pending completion of a comprehensive valuation of the net assets acquired. The financial statements at December 31, 2020 reflect Lifeco's current best estimate of the purchase price allocation. Final valuation of the assets acquired and liabilities assumed and the completion of the purchase price allocation are expected to occur during 2021. As at December 31, 2020, provisional amounts for intangible assets have not been separately identified and valued within the assets of the purchase price allocation pending completion of the valuation exercise.

As a result, the excess of the purchase price over the fair value of net assets acquired, representing goodwill of \$2,827 million (US\$2,226 million) on the date of acquisition, will be adjusted in future periods. The goodwill represents the synergies or future economic benefits arising from other assets acquired that are not individually identified and separately recognized in the acquisition of the MassMutual retirement services business. These synergies represent meaningful expense and revenue opportunities which are expected to be accretive to earnings.

During the year ended December 31, 2020, Lifeco incurred acquisition expenses of \$66 million (US\$51 million) which are included within operating and administrative expenses in the statements of earnings.

As the acquisition occurred on December 31, 2020, the reinsured business did not contribute to 2020 earnings.

Supplemental pro forma revenue and net earnings for the combined entity, as though the acquisition date for this business combination had been as of the beginning of the annual reporting period, have not been included as it is impracticable as MassMutual had a different financial reporting basis than Lifeco.

NOTE 3 Business Acquisitions, Disposals and Other Transactions (continued)**Acquisition of Personal Capital Corporation**

On August 17, 2020, Great-West Life & Annuity completed the acquisition of 100% of the equity of Personal Capital, a hybrid wealth manager that combines a digital experience with personalized advice delivered by human advisors. Prior to the completion of the acquisition, IGM held a 24.8% interest in Personal Capital (approximately 21.7% after giving effect to dilution). The transaction resulted from an auction process conducted by Personal Capital and shareholders other than IGM.

The investment in Personal Capital was previously accounted for by IGM using the equity method. Upon completion of this transaction, the Corporation, through Lifeco, acquired control of Personal Capital and a gain of \$37 million was recorded in share of earnings of investments in jointly controlled corporations and associates, as a result of the remeasurement of IGM's previous investment in Personal Capital at fair value on the date control was attained (Note 7).

The amounts assigned to the assets acquired, goodwill, and liabilities assumed on August 17, 2020, reported as at December 31, 2020, are as follows:

Assets acquired and goodwill	
Cash and cash equivalents	36
Goodwill	718
Intangible assets	294
Deferred tax assets	43
Other assets	40
	1,131
Liabilities assumed and contingent consideration	
Other liabilities	33
Contingent consideration	26
	59
Net assets acquired	1,072

During the fourth quarter of 2020, Lifeco substantially completed its comprehensive evaluation of the fair value of the net assets acquired from Personal Capital and the purchase price allocation. As a result, initial goodwill of \$954 million recognized upon the acquisition of Personal Capital on August 17, 2020 and presented in the Business Acquisitions, Disposals and Other Transactions note to the September 30, 2020 consolidated interim unaudited financial statements has been adjusted in the fourth quarter of 2020. Adjustments were made to the provisional amounts disclosed in the September 30, 2020 consolidated interim unaudited financial statements primarily for the recognition and measurement of intangible assets, contingent consideration and adjustments to the deferred tax assets acquired.

The following provides the change in the carrying value from September 30, 2020 to December 31, 2020 of the goodwill on acquisition.

Goodwill previously reported at September 30, 2020	954
Recognition and measurement of intangible assets	(294)
Recognition and measurement of contingent consideration	26
Adjustment to deferred tax assets and other adjustments	32
Goodwill reported at December 31, 2020	718

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

Intangible assets include customer contract-related, brand name and internally developed software.

NOTE 3 Business Acquisitions, Disposals and Other Transactions (continued)

The purchase consideration was adjusted from \$1,097 million to \$1,072 million (US\$825 million to US\$813 million). The contingent consideration earn-out value of \$26 million (US\$20 million) represents Lifeco's best estimate, which could increase to up to \$231 million (US\$175 million) based on the achievement of growth in assets under management metrics defined in the Merger Agreement, payable following measurements through December 31, 2021 and December 31, 2022. Future changes in the fair value of the contingent consideration measures in accordance with the Merger Agreement will be recognized in the statement of earnings.

Supplemental pro forma revenue and net earnings for the combined entity, as though the acquisition date for this business combination had been as of the beginning of the annual reporting period, have not been included as the results were not significant to the results of the Corporation.

During the year ended December 31, 2020, Lifeco incurred transaction expenses of \$29 million (US\$22 million) which are included within operating and administrative expenses in the statements of earnings.

Sale of Irish Progressive Services International Limited

On August 4, 2020, Irish Life completed the sale of Irish Progressive Services International Limited, a wholly owned subsidiary of Lifeco whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ group of companies. Lifeco recognized a net gain of \$94 million after tax in the statements of earnings that includes a curtailment gain and other restructuring and transaction costs. The carrying value and earnings of the business are immaterial to the Corporation.

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

On January 24, 2019, Great-West Life & Annuity announced that it had entered into an agreement with Protective Life Insurance Company (Protective Life) to sell, via indemnity reinsurance, substantially all of its individual life insurance and annuity business in the United States. The transaction was completed on June 1, 2019.

The liabilities transferred and ceding commission received at the closing of this transaction were subject to future adjustments. In October 2019, Protective Life provided Lifeco with its listing of proposed adjustments with respect to the liabilities transferred, which Lifeco formally objected to in December 2019. In November 2020, the parties reached resolution and settled cash for adjustments which did not have a material effect on the financial position of the Corporation and no further adjustments are expected.

LIFECO AND IGM**GLC Asset Management Group Ltd.**

On December 31, 2020, IGM's subsidiary, Mackenzie, acquired all of the common shares of GLC Asset Management Group Ltd. (GLC) for cash consideration of \$185 million. GLC was a wholly owned subsidiary of Lifeco whose principal activity is the provision of investment management services to Canada Life.

In a separate transaction, Canada Life acquired the fund management contracts relating to the private label Quadrus Group of Funds (QGOF) from Mackenzie for cash consideration of \$30 million. Mackenzie was previously the manager and trustee of the QGOF. Subsequent to the sale, Mackenzie continues to provide investment and administration services to the QGOF.

This is a related party transaction, and the boards of directors of Lifeco and IGM established committees of independent directors to assess, review and consider the proposed terms of the transaction and to make recommendations regarding the transaction to their respective boards of directors.

The Corporation previously consolidated GLC, through Lifeco, and therefore the transaction did not have an impact on the statements of earnings and balance sheets.

KOHO FINANCIAL INC.

On December 1, 2020, Koho, a Canada-based digital platform offering a suite of financial services to provide consumers an experience that is an alternative to traditional banks, closed a financing round of \$50 million of new capital led by Drive Capital. Portag3 II participated in the round and invested a further \$12 million. The indirect equity interest held by the Corporation decreased from 54.4% to 48.7% on December 1, 2020. Contemporaneously, the shareholders' agreement was amended, and the Corporation has determined that it no longer controls but has significant influence over Koho and now accounts for its investment as an investment in an associate. As a result, in the fourth quarter, the Corporation has derecognized the assets and liabilities of Koho in its financial statements and has recognized a gain of \$90 million included in net investment income in the statement of earnings.

NOTE 3 Business Acquisitions, Disposals and Other Transactions (continued)**POTENTIA RENEWABLES INC.**

On June 10, 2020, Potentia, an indirect wholly owned subsidiary of the Corporation, acquired a controlling interest in a portfolio of operating renewable energy projects from Firelight Infrastructure Partners LP consisting of three Ontario ground-mount solar projects totalling 43 megawatts (MW) and four Nova Scotia operating wind farms totalling 24 MW.

The amounts assigned to the assets acquired and liabilities assumed on June 10, 2020, reported as at December 31, 2020 are as follows:

Assets acquired	
Owner-occupied properties and capital assets	85
Intangible assets (power purchase agreements)	150
Goodwill	11
Other assets	9
	255
Liabilities assumed	
Other debt instruments	145
Other liabilities	6
Deferred tax liabilities	29
	180
Net assets acquired	75
Consideration	
Cash, net of cash and cash equivalents acquired	63
Non-controlling interests, at fair value	12
	75

During the fourth quarter of 2020, Potentia completed its comprehensive evaluation of the fair value of the net assets acquired and the purchase price allocation. Adjustments were made to the provisional amount disclosed in the September 30, 2020 consolidated interim unaudited financial statements, primarily for the measurement of owner-occupied properties and capital assets, intangible assets and recognition of deferred tax liabilities assumed. The goodwill represents the excess of the purchase price over the fair value of the net assets.

Supplemental pro forma revenue and net earnings for the combined entity, as though the acquisition date for this business combination had been as of the beginning of the annual reporting period, has not been included as the results were not significant to the results of the Corporation.

Acquisition of assets

In 2019, Potentia acquired operating wind and solar assets in North America.

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

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

NOTE 3 Business Acquisitions, Disposals and Other Transactions (continued)**NAUTILUS SOLAR ENERGY, LLC**

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

INTEGRAMED AMERICA, INC.

The Corporation, through its wholly owned subsidiary Sagard Holdings Inc., held a 91.6% interest in IntegraMed, a private healthcare services company operating a network of fertility clinics in North America. On May 20, 2020, IntegraMed entered into restructuring proceedings and accordingly the Corporation no longer controls IntegraMed. Effective May 20, 2020, the Corporation has derecognized the assets and liabilities of IntegraMed resulting in a recovery on deconsolidation of \$27 million (US\$19 million) which has been included in net investment income on the statement of earnings.

The following table summarizes the assets and liabilities derecognized:

Assets derecognized	
Cash	22
Investments in associates	10
Owner-occupied properties and capital assets	182
Other assets	59
Intangible assets	95
	368
Liabilities and non-controlling interests derecognized	
Other debt instruments	129
Other liabilities	271
Non-controlling interests	(5)
	395
Recovery on deconsolidation	27

POWER SUSTAINABLE ENERGY INFRASTRUCTURE PARTNERSHIP**Subsequent Event**

In January 2021, Power Sustainable, a wholly owned subsidiary of the Corporation, launched Power Sustainable Energy Infrastructure Partnership, a fund with initial committed capital of \$1 billion dedicated to the renewable energy sector, including a commitment of \$400 million from Power Sustainable and \$150 million from Lifeco. Certain existing operating assets and projects under development from Potentia and Nautilus were transferred to the partnership at the closing in exchange for consideration in cash and units of this fund.

NOTE 4 Cash and Cash Equivalents

	December 31, 2020	December 31, 2019
Cash	4,033	3,643
Cash equivalents	6,007	3,162
Cash and cash equivalents	10,040	6,805

At December 31, 2020, cash amounting to \$562 million was restricted for use by subsidiaries (\$591 million at December 31, 2019) primarily in respect of cash held in trust for reinsurance agreements or with regulatory authorities, under certain indemnity arrangements and in escrow.

NOTE 5 Investments**CARRYING VALUES AND FAIR VALUES**

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

	December 31, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated as fair value through profit or loss ^[1]	100,729	100,729	84,128	84,128
Classified as fair value through profit or loss ^[1]	2,053	2,053	1,717	1,717
Available for sale	11,897	11,897	12,028	12,028
Loans and receivables	23,348	26,545	17,372	19,344
	138,027	141,224	115,245	117,217
Mortgage and other loans				
Loans and receivables	32,546	34,607	30,461	31,420
Designated as fair value through profit or loss ^[1]	2,092	2,092	1,314	1,314
Classified as fair value through profit or loss ^[1]	3	3	-	-
	34,641	36,702	31,775	32,734
Shares				
Designated as fair value through profit or loss ^[1]	10,498	10,498	9,752	9,752
Classified as fair value through profit or loss ^[1]	199	199	173	173
Available for sale ^[2]	1,963	1,963	1,624	1,624
	12,660	12,660	11,549	11,549
Investment properties	6,270	6,270	5,887	5,887
Loans to policyholders	8,387	8,387	8,601	8,601
	199,985	205,243	173,057	175,988

[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 or if a financial asset is managed and its performance is evaluated on a fair value basis. For Lifeco, changes in the fair value of financial assets designated as fair value through profit or loss are generally offset by changes in insurance contract liabilities, since the measurement of insurance contract liabilities is determined with reference to the assets supporting the liabilities.

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

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

BONDS AND MORTGAGE AND OTHER LOANS

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

	Carrying value			
	Term to maturity			Total
	1 year or less	1-5 years	Over 5 years	
December 31, 2020				
Bonds	11,188	28,359	98,445	137,992
Mortgage and other loans	3,224	14,778	16,611	34,613
	14,412	43,137	115,056	172,605
December 31, 2019				
Bonds	12,351	26,098	76,759	115,208
Mortgage and other loans	2,452	14,124	15,168	31,744
	14,803	40,222	91,927	146,952

The tables shown above exclude the carrying value of impaired bonds and mortgage and other loans, as the ultimate timing of collectability is uncertain. Mortgage and other loans include equity-release mortgages which do not have a fixed redemption date. The maturity profile of the portfolio has therefore been estimated based on redemption experience.

NOTE 5 Investments (continued)**IMPAIRED INVESTMENTS AND ALLOWANCE FOR CREDIT LOSSES**

Carrying amount of impaired investments is as follows:

	December 31, 2020	December 31, 2019
Impaired amounts by classification		
Fair value through profit or loss	20	21
Available for sale	89	21
Loans and receivables	28	31
Total	137	73

The carrying amount of impaired investments includes bonds, mortgage and other loans and shares. The carrying values for loans and receivables are net of allowances for credit losses of \$62 million as at December 31, 2020 (\$53 million as at December 31, 2019). The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

NET INVESTMENT INCOME

Year ended December 31, 2020	Bonds	Mortgage and other loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	3,598	986	365	397	565	5,911
Net realized gains						
Available-for-sale	146	-	186	-	-	332
Other classifications	33	57	86	-	-	176
Net allowances for credit losses on loans and receivables	-	(16)	-	-	-	(16)
Other income (expenses)	-	6	(2)	(127)	74	(49)
	3,777	1,033	635	270	639	6,354
Change in fair value through profit or loss	5,232	167	160	(74)	307	5,792
Net investment income	9,009	1,200	795	196	946	12,146
Year ended December 31, 2019	Bonds	Mortgage and other loans	Shares	Investment properties	Other	Total
Regular net investment income						
Investment income earned	3,971	992	314	374	548	6,199
Net realized gains						
Available-for-sale	57	-	168	-	-	225
Other classifications ^[1]	164	175	-	-	-	339
Net allowances for credit losses on loans and receivables	-	(50)	-	-	-	(50)
Other income (expenses)	-	6	20	(117)	(167)	(258)
	4,192	1,123	502	257	381	6,455
Change in fair value through profit or loss	5,785	107	1,446	37	(388)	6,987
Net investment income	9,977	1,230	1,948	294	(7)	13,442

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

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

NOTE 5 Investments (continued)**TRANSFERRED FINANCIAL ASSETS**

Lifeco engages in securities lending to generate additional income. Lifeco's securities custodians are used as lending agents. Collateral, which exceeds the fair value of the loaned securities, is deposited by the borrower with Lifeco's lending agent and maintained by the lending agent until the underlying security has been returned. The fair value of the loaned securities is monitored on a daily basis by the lending agent, which obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. Included in the collateral deposited with Lifeco's lending agent is cash collateral of \$267 million at December 31, 2020 (\$398 million at December 31, 2019). In addition, the securities lending agent indemnifies Lifeco against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2020, Lifeco had loaned securities (which are included in investments) with a fair value of \$8,921 million (\$7,023 million at December 31, 2019).

NOTE 6 Funds Held by Ceding Insurers

At December 31, 2020, Lifeco had amounts on deposit of \$18,383 million (\$8,714 million at December 31, 2019) for funds held by ceding insurers on the balance sheets. Income and expenses arising from the agreements are included in net investment income on the statements of earnings.

As part of the MassMutual acquisition (Note 3), Great-West Life & Annuity assumed, by way of indemnity reinsurance, a block of retirement plan service contracts from a previous reinsurance agreement held by MassMutual. Under the agreement, Great-West Life & Annuity is required to put amounts in trust with MassMutual and Great-West Life & Annuity retains the credit risk on the portfolio of assets included in the amounts on deposit.

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

Carrying values and estimated fair values

	December 31, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	245	245	216	216
Bonds	15,365	15,365	6,445	6,445
Mortgages	578	578	–	–
Other assets	137	137	80	80
	16,325	16,325	6,741	6,741
Supporting:				
Reinsurance liabilities	16,094	16,094	6,537	6,537
Surplus	231	231	204	204
	16,325	16,325	6,741	6,741

Asset quality

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

	December 31, 2020	December 31, 2019
AAA	1,508	601
AA	3,848	2,670
A	5,597	2,264
BBB	4,165	822
BB and lower	247	88
Total bonds	15,365	6,445

NOTE 7 Investments in Jointly Controlled Corporations and Associates

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

December 31, 2020	Jointly controlled corporations		Associates				Total
	Parjointco	Other	Northleaf	China AMC	Personal Capital	Other ^[1]	
Carrying value, beginning of year	3,954	224	-	1,321	194	200	5,893
Acquisition	-	3	247	-	-	130	380
Investments	-	14	-	-	-	44	58
Disposal	-	(16)	-	-	-	(13)	(29)
Derecognition [Note 3]	-	-	-	-	-	(10)	(10)
Share of earnings (losses)	27	57	1	84	32	(31)	170
Share of other comprehensive income (loss)	320	(4)	-	59	7	3	385
Dividends and distributions	(88)	(6)	-	(28)	-	(2)	(124)
Effects of changes in ownership and other	3	-	-	-	(233)	36	(194)
Carrying value, end of year	4,216	272	248	1,436	-	357	6,529

[1] On December 1, 2020, the Corporation determined that it no longer controls Koho but has significant influence and now accounts for its investment as an associate (Note 3).

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

PARJOINTCO

On March 11, 2020, Parjointco and Pargesa announced an agreement for a transaction to simplify the group structure. A public exchange offer was initiated by Parjointco for all Pargesa shares not already owned by Parjointco, under which Pargesa shareholders received 0.93 shares of GBL for each Pargesa bearer share they held. Following the transaction, Pargesa was delisted from the SIX. At the completion of the transaction, Parjointco maintained approximately the same economic equity interest in GBL of 28%. GBL shareholders approved the implementation of double-voting rights, a condition of the transaction, at GBL's extraordinary shareholders meeting held on April 28, 2020; as a result, Parjointco retained de facto control of GBL.

Following the successful public exchange offer of Parjointco, on July 30, 2020, the board of directors of Pargesa approved the merger between Pargesa and Parjointco Switzerland, a wholly owned subsidiary of Parjointco. As part of the merger, the remaining shareholders of Pargesa were provided compensation of a value substantially equivalent to the exchange ratio offered by Parjointco during the exchange offer, on terms and conditions described in the merger agreement. The merger was approved by Pargesa's shareholders at an extraordinary general meeting held on September 4, 2020 and was completed on November 20, 2020.

Parjointco's interest in Pargesa increased from 55.5% (75.4% of the voting rights) at December 31, 2019 to 100% (100% of the voting rights) at December 31, 2020. In turn, Pargesa's interest in GBL decreased from 50.0% at December 31, 2019 to 28.2% (43.2% of the voting rights) at December 31, 2020. The transaction resulted in an increase in retained earnings of \$19 million at December 31, 2020. The Corporation's share of costs related to the transaction of \$23 million was charged to retained earnings on the statements of changes in equity.

NOTE 7 Investments in Jointly Controlled Corporations and Associates (continued)

At December 31, 2020, the net asset value of the Corporation's indirect interest in GBL is approximately \$4,451 million. The carrying value of the indirect investment in GBL is \$4,216 million. For the year ended December 31, 2020, revenue of GBL was €6,229 million (C\$9,259 million) (€5,546 million or C\$8,239 million for the year ended December 31, 2019) and net earnings attributable to GBL's common shareholders was €391 million (C\$598 million) (€705 million or C\$1,047 million for the year ended December 31, 2019). Results reported by GBL are in accordance with IFRS 9. The Corporation's share of earnings in Parjointco includes an adjustment to account for GBL's earnings under IAS 39. Other financial information for GBL can be obtained from its publicly available information.

CHINA AMC

At December 31, 2020, Power Corporation and IGM Financial each held an equity interest of 13.9% in China AMC (same at December 31, 2019). China AMC is an asset management company established in Beijing, China. The Corporation and IGM account for their interests in China AMC as an associate using the equity method.

Summarized financial information for China AMC is as follows:

[in millions]	2020		2019	
	Canadian dollars	Chinese renminbi	Canadian dollars	Chinese renminbi
Balance sheet at December 31 ^[1]				
Assets	2,672	13,695	2,171	11,645
Liabilities	720	3,688	504	2,701
Comprehensive income for the years ended December 31				
Revenue	1,078	5,539	763	3,977
Net earnings attributable to common shareholders	311	1,598	230	1,201
Total comprehensive income	300	1,542	234	1,219

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

NORTHLEAF CAPITAL GROUP LTD.

On October 29, 2020, IGM's subsidiary, Mackenzie, and Lifeco acquired a 49.9% non-controlling voting interest and a 70% economic interest in Northleaf Capital Group Ltd. (Northleaf), a global private equity, private credit and infrastructure fund manager, through an acquisition vehicle 80% owned by Mackenzie and 20% owned by Lifeco. The interest was acquired for cash consideration of \$247 million, including transaction costs of \$6 million, and up to an additional \$245 million in consideration at the end of five years, subject to the business achieving exceptional growth in certain performance measures over the period. Any additional consideration will be recognized as an expense over the five-year period based on the fair value of the expected payment, which will be revalued at each reporting period date. Mackenzie and Lifeco have an obligation and right to purchase the remaining economic and voting interest in Northleaf commencing in approximately five years and extending into future periods. Lifeco and IGM together have committed as part of the transaction to make a minimum investment through 2022 in Northleaf's product offerings. The equity method is used to account for the investment in Northleaf as Mackenzie and Lifeco exercise significant influence, through the acquisition vehicle. Significant influence arises from board representation, participation in the policy-making process and shared strategic initiatives.

The net earnings of Northleaf are not expected to be significant to the results of the Corporation.

PERSONAL CAPITAL

On August 17, 2020 Great-West Life & Annuity acquired 100% of the equity of Personal Capital. Upon completion of this transaction, the Corporation, through Lifeco, acquired control of Personal Capital and the Corporation is required to consolidate Personal Capital (Note 3).

LION ELECTRIC CO.

At December 31, 2020, the Corporation, through its wholly owned subsidiary Power Energy, holds a 44.1% equity interest (same at December 31, 2019) as well as certain call rights to acquire additional shares from certain existing shareholders in The Lion Electric Co. (Lion), an innovative manufacturer of zero-emission vehicles. The estimated fair value of the call rights was \$102 million at December 31, 2020 (nil at December 31, 2019) and is included in Derivative financial assets on the balance sheets; an equivalent gain was recorded in net investment income on the statements of earnings during the year ended December 31, 2020.

NOTE 8 Owner-Occupied Properties and Capital Assets

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

December 31, 2020	Right-of-use assets ^[1]	Owner-occupied properties	Capital assets		Total
			Power generating assets	Other	
Cost, beginning of year	1,046	1,030	718	2,012	4,806
Business acquisitions [Note 3]	1	-	84	-	85
Additions	100	44	397	131	672
Modifications	(9)	-	-	-	(9)
Disposal/retirements	-	(2)	(5)	(51)	(58)
Derecognition	(176)	-	-	(132)	(308)
Transferred to investment properties ^[2]	-	(17)	-	-	(17)
Changes in foreign exchange rates and other	3	4	(61)	(9)	(63)
Cost, end of year	965	1,059	1,133	1,951	5,108
Accumulated amortization, beginning of year	(137)	(202)	(96)	(1,308)	(1,743)
Amortization and impairment	(122)	(19)	(36)	(166)	(343)
Disposal/retirements	-	2	2	46	50
Derecognition	39	-	-	82	121
Changes in foreign exchange rates and other	5	1	1	17	24
Accumulated amortization, end of year	(215)	(218)	(129)	(1,329)	(1,891)
Carrying value, end of year	750	841	1,004	622	3,217

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

[2] As a result of the sale of Irish Progressive Services International Limited a property with a carrying value of \$17 million was reclassified from owner-occupied properties to investment properties.

December 31, 2019	Right-of-use assets ^[1]	Owner-occupied properties	Capital assets		Total
			Power generating assets	Other	
Cost, beginning of year	854	1,023	386	1,919	4,182
Business acquisitions and acquisition of assets	60	-	168	-	228
Additions	141	37	158	159	495
Modifications	(21)	-	-	-	(21)
Disposal/retirements	-	(10)	(1)	(31)	(42)
Changes in foreign exchange rates and other	12	(20)	7	(35)	(36)
Cost, end of year	1,046	1,030	718	2,012	4,806
Accumulated amortization, beginning of year	-	(187)	(72)	(1,202)	(1,461)
Amortization and impairment	(132)	(16)	(24)	(140)	(312)
Disposal/retirements	-	-	-	12	12
Changes in foreign exchange rates and other	(5)	1	-	22	18
Accumulated amortization, end of year	(137)	(202)	(96)	(1,308)	(1,743)
Carrying value, end of year	909	828	622	704	3,063

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

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

	December 31, 2020	December 31, 2019
Canada	1,993	1,811
United States	940	966
Europe	284	286
	3,217	3,063

NOTE 9 Other Assets

	December 31, 2020	December 31, 2019
Premiums in course of collection, accounts receivable and interest receivable	6,711	6,355
Client funds on deposit	2,280	892
Deferred acquisition costs and deferred selling commissions	853	750
Pension benefits [Note 25]	240	231
Income taxes receivable	177	248
Trading account assets	713	1,092
Finance leases receivable	404	405
Prepaid expenses	189	195
Other	933	378
	12,500	10,546

Total Other assets of \$10,897 million as at December 31, 2020 (\$8,998 million as at December 31, 2019) are to be realized within 12 months. This amount excludes deferred acquisition costs and deferred selling commissions, the changes in which are presented below.

DEFERRED ACQUISITION COSTS AND DEFERRED SELLING COMMISSIONS

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

	December 31, 2020	December 31, 2019
Balance, beginning of year	750	705
Additions	211	189
Disposals	(41)	(36)
Amortization	(93)	(75)
Changes in foreign exchange rates and other	26	(33)
Balance, end of year	853	750

NOTE 10 Goodwill and Intangible Assets**GOODWILL**

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

	December 31, 2020			December 31, 2019		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
Balance, beginning of year	11,645	(1,321)	10,324	11,730	(1,307)	10,423
Business acquisitions [Note 3]	3,646	-	3,646	46	-	46
Impairment ^{[1][2]}	-	-	-	-	(66)	(66)
Derecognition [Note 3]	(133)	133	-	-	-	-
Changes in foreign exchange rates and other	(34)	27	(7)	(131)	52	(79)
Balance, end of year	15,124	(1,161)	13,963	11,645	(1,321)	10,324

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

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

INTANGIBLE ASSETS

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

Indefinite life intangible assets

	Brands, trademarks and trade names	Customer contract-related	Mutual fund management contracts	Shareholders' portion of acquired future participating account profit	Total
December 31, 2020					
Cost, beginning of year	1,297	2,562	741	354	4,954
Additions	92	30	-	-	122
Changes in foreign exchange rates and other	(2)	(50)	-	-	(52)
Cost, end of year	1,387	2,542	741	354	5,024
Accumulated impairment, beginning of year	(133)	(1,051)	-	-	(1,184)
Changes in foreign exchange rates and other	-	23	-	-	23
Accumulated impairment, end of year	(133)	(1,028)	-	-	(1,161)
Carrying value, end of year	1,254	1,514	741	354	3,863

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

NOTE 10 Goodwill and Intangible Assets (continued)**Finite life intangible assets**

	Technology and software	Customer contract- related	Power purchase agreements	Other	Total
December 31, 2020					
Cost, beginning of year	2,200	1,210	344	553	4,307
Additions	386	189	167	32	774
Disposal	(42)	-	-	(3)	(45)
Derecognition [Note 3]	(41)	-	-	(129)	(170)
Changes in foreign exchange rates and other	(3)	2	-	11	10
Cost, end of year	2,500	1,401	511	464	4,876
Accumulated amortization, beginning of year	(1,305)	(665)	(50)	(214)	(2,234)
Amortization and impairment	(208)	(70)	(23)	(31)	(332)
Disposal	35	-	-	2	37
Derecognition [Note 3]	23	-	-	52	75
Changes in foreign exchange rates and other	4	(3)	-	(7)	(6)
Accumulated amortization, end of year	(1,451)	(738)	(73)	(198)	(2,460)
Carrying value, end of year	1,049	663	438	266	2,416
December 31, 2019					
Cost, beginning of year	1,983	1,226	180	539	3,928
Additions	298	13	165	37	513
Disposal	(25)	-	-	(3)	(28)
Changes in foreign exchange rates and other	(56)	(29)	(1)	(20)	(106)
Cost, end of year	2,200	1,210	344	553	4,307
Accumulated amortization, beginning of year	(1,152)	(603)	(39)	(196)	(1,990)
Amortization	(199)	(74)	(11)	(25)	(309)
Disposal	5	-	-	2	7
Changes in foreign exchange rates and other	41	12	-	5	58
Accumulated amortization, end of year	(1,305)	(665)	(50)	(214)	(2,234)
Carrying value, end of year	895	545	294	339	2,073

NOTE 10 Goodwill and Intangible Assets (continued)**ALLOCATION TO CASH GENERATING UNITS**

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

	December 31, 2020			December 31, 2019		
	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total
Lifeco						
Canada						
Group Customer	1,615	354	1,969	1,632	354	1,986
Individual Customer	2,799	649	3,448	2,808	619	3,427
Europe	2,458	233	2,691	2,345	223	2,568
United States						
Financial Services	3,694	89	3,783	180	-	180
Asset Management	-	1,473	1,473	-	1,508	1,508
IGM ⁽¹⁾						
Wealth Management	1,586	23	1,609	1,586	23	1,609
Asset Management	1,275	1,003	2,278	1,251	1,003	2,254
Other	536	39	575	522	40	562
	13,963	3,863	17,826	10,324	3,770	14,094

[1] In 2020, IGM realigned its CGUs and the Corporate CGUs were included within the Wealth Management CGUs. The comparative figures have been restated to conform to the current year's presentation.

RECOVERABLE AMOUNT**Lifeco**

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

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

In the fourth quarter of 2020, Lifeco conducted its annual impairment testing of goodwill and indefinite life intangible assets based on the September 30, 2020 asset balances. It was determined that the recoverable amounts of CGUs were in excess of their carrying values and there was no evidence of significant impairment.

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

NOTE 10 Goodwill and Intangible Assets (continued)**IGM Financial**

IGM tests whether goodwill and indefinite life intangible assets are impaired by assessing the carrying amounts with the recoverable amounts. The recoverable amount of IGM's CGUs is based on the best available evidence of fair value less cost of disposal.

In assessing recoverable amounts, valuation approaches are used that may include discounted cash flow analysis and application of capitalization multiples to financial and operating metrics based upon precedent acquisition transactions and trading comparables. Assumptions and estimates employed in discounted cash flows include future changes in assets under management resulting from net sales and investment returns, pricing and profit margin changes and discount rates, which represent Level 3 fair value inputs. Valuation multiples may include price-to-earnings or other conventionally used measures for investment managers or other financial service providers (multiples of value to assets under management, revenues, or other measures of profitability). This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value are Level 2 inputs.

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

NOTE 11 Segregated Funds and Other Structured Entities

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

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

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, Lifeco has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are \$1,490 million at December 31, 2020 (\$1,147 million at December 31, 2019).

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

NOTE 11 Segregated Funds and Other Structured Entities (continued)**SEGREGATED FUNDS AND GUARANTEE EXPOSURE**

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

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

In the U.S., Lifeco offers group variable annuities with guaranteed minimum death benefits and guaranteed minimum withdrawal benefits and group standalone guaranteed minimum death benefits products which mainly provide return of premium on death.

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

Lifeco also offers guaranteed minimum withdrawal benefits products in the U.S. and Germany, and previously offered guaranteed minimum withdrawal benefits products in Canada and Ireland. Certain guaranteed minimum withdrawal benefits products offered by Lifeco offer levels of death and maturity guarantees. At December 31, 2020, the amount of guaranteed minimum withdrawal benefits products in force in Canada, the U.S., Ireland and Germany was \$3,375 million (\$3,332 million at December 31, 2019).

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

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	December 31, 2020 ^[1]	December 31, 2019
Cash and cash equivalents	15,558	12,501
Bonds	65,338	44,973
Mortgage loans	2,686	2,670
Shares and units in unit trusts	112,675	104,330
Mutual funds	127,577	55,779
Investment properties	12,430	12,986
	336,264	233,239
Accrued income	463	373
Other liabilities	(4,185)	(3,737)
Non-controlling mutual fund interest	1,490	1,147
	334,032	231,022

[1] At December 31, 2020, \$84,785 million of investments on account of segregated fund policyholders are reinsured by Lifeco on a modified co-insurance basis (nil at December 31, 2019) (Note 3). Included in this amount are \$87 million of cash and cash equivalents, \$15,320 million of bonds, \$23 million of shares and units in unit trusts, \$69,259 million of mutual funds, \$100 million of accrued income and \$4 million of other liabilities.

NOTE 11 Segregated Funds and Other Structured Entities (continued)**INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS**

	Years ended December 31,	
	2020	2019
Balance, beginning of year	231,022	209,527
Additions (deductions):		
Policyholder deposits	21,916	24,685
Net investment income	2,695	3,331
Net realized capital gains on investments	8,954	4,265
Net unrealized capital gains on investments	474	19,658
Unrealized gains (losses) due to changes in foreign exchange rates	3,920	(6,539)
Policyholder withdrawals	(20,371)	(24,721)
Business acquisition ^[1]	84,785	-
Change in segregated fund investment in General Fund	51	(4)
General Fund investment in segregated fund	234	105
Net transfer from General Fund	9	23
Non-controlling mutual fund interest	343	283
Transfer from assets held for sale	-	409
	103,010	21,495
Balance, end of year	334,032	231,022

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

INVESTMENT INCOME ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	Years ended December 31,	
	2020	2019
Net investment income	2,695	3,331
Net realized capital gains on investments	8,954	4,265
Net unrealized capital gains on investments	474	19,658
Unrealized gains (losses) due to changes in foreign exchange rates	3,920	(6,539)
Total	16,043	20,715
Change in insurance and investment contract liabilities on account of segregated fund policyholders	16,043	20,715
Net	-	-

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

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ^[1]	224,831	98,424	13,556	336,811

[1] Excludes other liabilities, net of other assets, of \$2,779 million.

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

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

In 2020 certain foreign equity holdings valued at \$3,190 million were transferred from Level 1 to Level 2 (\$153 million were transferred from Level 1 to Level 2 at December 31, 2019), primarily based on Lifeco's change in use of inputs in addition to quoted prices in active markets for certain foreign equity holdings at year-end. Level 2 assets include the assets where fair value is not available from normal market pricing sources, where inputs are utilized in addition to quoted prices in active markets and where Lifeco does not have access to the underlying asset details within an investment fund.

NOTE 11 Segregated Funds and Other Structured Entities (continued)

As at December 31, 2020, \$9,770 million (\$8,471 million at December 31, 2019) of the segregated funds were invested in funds managed by IG Wealth Management and Mackenzie Investments, subsidiaries of IGM and related parties.

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

	December 31, 2020	December 31, 2019		
	Investments on account of segregated fund policyholders ^[1]	Investments on account of segregated fund policyholders	Investments on account of segregated fund policyholders held for sale	Total
Balance, beginning of year	13,988	13,371	9	13,380
Total gains (losses) included in segregated fund investment income	78	141	(1)	140
Purchases	167	760	-	760
Sales	(712)	(284)	(8)	(292)
Transfers into Level 3	35	-	-	-
Balance, end of year	13,556	13,988	-	13,988

[1] At December 31, 2020, there were no investments on account of segregated fund policyholders held for sale.

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

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

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

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

Fee income earned by Lifeco resulting from Lifeco's interests in segregated funds and other structured entities was \$5,034 million for the year ended December 31, 2020 (\$4,919 million in 2019).

Included within other assets (Note 9) at December 31, 2020 is \$557 million (\$957 million at December 31, 2019) of investments by Lifeco in bonds and shares of Putnam-sponsored funds and \$156 million (\$135 million at December 31, 2019) of investments in shares of sponsored unit trusts in Europe.

NOTE 12 Insurance and Investment Contract Liabilities**INSURANCE AND INVESTMENT CONTRACT LIABILITIES**

	December 31, 2020			December 31, 2019		
	Gross liability	Reinsurance assets ^[1]	Net	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	208,902	21,991	186,911	174,521	20,580	153,941
Investment contract liabilities	9,145	130	9,015	1,656	127	1,529
	218,047	22,121	195,926	176,177	20,707	155,470

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

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS

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

	December 31, 2020			December 31, 2019		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Participating						
Canada	46,107	(199)	46,306	42,271	(247)	42,518
United States	11,090	13	11,077	11,329	12	11,317
Europe ^[1]	155	-	155	173	-	173
Capital and Risk Solutions ^[1]	912	-	912	846	-	846
Non-participating						
Canada	35,449	638	34,811	32,668	498	32,170
United States	65,703	15,908	49,795	32,360	15,091	17,269
Europe ^[1]	48,088	5,622	42,466	45,489	5,230	40,259
Capital and Risk Solutions ^[1]	10,543	139	10,404	11,041	123	10,918
	218,047	22,121	195,926	176,177	20,707	155,470

[1] See comparative figures (Note 2).

NOTE 12 Insurance and Investment Contract Liabilities (continued)

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

December 31, 2020	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Participating liabilities						
Canada	21,803	10,545	6,152	2,983	4,624	46,107
United States	5,193	593	13	-	5,291	11,090
Europe	84	-	62	9	-	155
Capital and Risk Solutions	688	12	-	-	212	912
Non-participating liabilities						
Canada	21,511	4,498	2,789	360	6,291	35,449
United States	31,631	4,586	46	-	29,440	65,703
Europe	34,941	5,746	332	2,536	4,533	48,088
Capital and Risk Solutions	2,365	52	-	-	8,126	10,543
Other, including segregated funds	15,285	1,135	754	141	338,113	355,428
Total equity	4,091	636	852	241	21,195	27,015
Total carrying value	137,592	27,803	11,000	6,270	417,825	600,490
Fair value	140,789	29,633	10,963	6,270	417,825	605,480
December 31, 2019	Bonds	Mortgage loans	Shares	Investment properties	Other	Total
Participating liabilities						
Canada	19,484	9,655	6,142	2,472	4,518	42,271
United States	5,128	626	-	-	5,575	11,329
Europe ^[1]	97	-	63	12	1	173
Capital and Risk Solutions ^[1]	619	20	-	-	207	846
Non-participating liabilities						
Canada	20,270	4,111	2,237	407	5,643	32,668
United States	14,311	2,678	-	-	15,371	32,360
Europe ^[1]	33,062	5,387	299	2,672	4,069	45,489
Capital and Risk Solutions ^[1]	2,484	55	-	-	8,502	11,041
Other, including segregated funds	15,630	902	902	119	231,894	249,447
Total equity	3,943	834	732	205	19,829	25,543
Total carrying value	115,028	24,268	10,375	5,887	295,609	451,167
Fair value	117,000	25,146	10,367	5,887	295,609	454,009

[1] See comparative figures (Note 2).

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

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

NOTE 12 Insurance and Investment Contract Liabilities (continued)**CHANGE IN INSURANCE CONTRACT LIABILITIES**

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

	Participating			Non-participating			Total net
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net	
December 31, 2020							
Balance, beginning of year	54,619	(235)	54,854	119,902	20,815	99,087	153,941
Impact of new business	(7)	32	(39)	7,028	706	6,322	6,283
Normal change in in-force business	3,883	9	3,874	1,296	750	546	4,420
Management actions and changes in assumptions	55	8	47	161	109	52	99
Business movement from/to external parties	-	-	-	(48)	-	(48)	(48)
MassMutual acquisition [Note 3]	-	-	-	22,316	-	22,316	22,316
Impact of foreign exchange rate changes	(286)	-	(286)	(17)	(203)	186	(100)
Balance, end of year	58,264	(186)	58,450	150,638	22,177	128,461	186,911

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

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

2020

In 2020, the major contributors to the increase in net insurance contract liabilities were the acquisition of MassMutual of \$22,316 million, the impact of new business of \$6,283 million, and the normal change in the in-force business of \$4,420 million.

Net non-participating insurance contract liabilities increased by \$52 million due to management actions and changes in assumptions including a \$377 million increase in Canada, partially offset by decreases of \$212 million in Europe, \$59 million in Capital and Risk Solutions, and \$54 million in the United States.

The increase in Canada was primarily due to updated policyholder behaviour assumptions of \$269 million, updated morbidity assumptions of \$140 million, of which \$114 million is offset by an increase in other assets, and updated economic and asset-related assumptions of \$98 million. This was partially offset by decreases due to updated life mortality assumptions of \$129 million.

NOTE 12 Insurance and Investment Contract Liabilities (continued)

The decrease in Europe was primarily due to updated longevity assumptions of \$138 million, modelling refinements of \$28 million, updated morbidity assumptions of \$24 million, updated policyholder behaviour assumptions of \$19 million, and economic and asset-related assumptions of \$10 million. This was partially offset by an increase due to updated expense and tax assumption of \$6 million.

The decrease in Capital and Risk Solutions was primarily due to updated longevity assumptions of \$135 million, updated economic assumptions of \$41 million, and modelling refinements of \$37 million. This was partially offset by increases due to updated life mortality assumptions of \$107 million, updated expense and tax assumptions of \$28 million, and updated policyholder behaviour assumptions of \$14 million.

The decrease in the United States was primarily due to updated economic assumptions of \$50 million.

Net participating insurance contract liabilities increased by \$47 million in 2020 due to management actions and changes in assumptions. The increase was primarily due to updated economic assumptions of \$2,358 million, and updated policyholder behaviour assumptions of \$34 million. This was partially offset by decreases due to provisions for future policyholder dividends of \$1,899 million, updated expense and tax assumptions of \$446 million, and modelling refinements of \$5 million.

2019

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

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

Net non-participating insurance contract liabilities decreased by \$44 million in 2019 due to management actions and assumption changes including a \$272 million decrease in Europe, partially offset by a \$145 million increase in Canada and a \$52 million increase in the United States, and a \$31 million increase in Capital and Risk Solutions.

The decrease in Europe was primarily due to updated longevity assumptions of \$187 million, updated economic assumptions of \$98 million, which includes the net impact of new standards and updated life mortality assumptions of \$7 million, partially offset by increases due to updated expense and tax assumptions of \$25 million.

The increase in Canada was primarily due to updated policyholder behaviour assumptions of \$254 million, and updated longevity assumptions of \$54 million, partially offset by decreases due to updated morbidity assumptions of \$169 million and updated economic assumptions of \$6 million, which includes the net impact of new standards.

The increase in the United States was primarily due to updated expense and tax assumptions of \$45 million, and updated life mortality assumptions of \$43 million, partially offset by decreases due to updated economic assumptions of \$34 million, which includes the net impact of new standards.

The increase in Capital and Risk Solutions was primarily due to updated life mortality assumptions of \$87 million and updated expense and tax assumptions of \$34 million, partially offset by decreases due to updated longevity assumptions of \$112 million and updated economic assumptions of \$3 million, which includes the net impact of new standards.

Net participating insurance contract liabilities decreased by \$10 million in 2019 due to management actions and assumption changes. The decrease was primarily due to updated provisions for future policyholder dividends of \$2,232 million, updated expense and tax assumptions of \$535 million, and modelling refinements of \$198 million. This was partially offset by increases due to updated economic assumptions of \$1,884 million, updated policyholder behaviour assumptions of \$935 million and updated life mortality assumptions of \$153 million.

NOTE 12 Insurance and Investment Contract Liabilities (continued)**CHANGE IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE**

	December 31, 2020			December 31, 2019		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Balance, beginning of year	1,656	127	1,529	1,711	-	1,711
Normal change in in-force business	2,489	(20)	2,509	(87)	38	(125)
Investment experience	147	26	121	103	(23)	126
Management actions and changes in assumptions	(4)	-	(4)	(4)	-	(4)
Business movement from/to external parties	-	-	-	-	116	(116)
MassMutual acquisition [Note 3]	4,984	-	4,984	-	-	-
Impact of foreign exchange rate changes	(127)	(3)	(124)	(67)	(4)	(63)
Balance, end of year	9,145	130	9,015	1,656	127	1,529

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

GROSS PREMIUM INCOME

	December 31, 2020	December 31, 2019
Direct premiums	28,082	25,398
Assumed reinsurance premiums	19,652	17,847
Total	47,734	43,245

GROSS POLICYHOLDER BENEFITS

	December 31, 2020	December 31, 2019
Direct	19,538	19,643
Assumed reinsurance	20,067	18,126
Total	39,605	37,769

ACTUARIAL ASSUMPTIONS

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

NOTE 12 Insurance and Investment Contract Liabilities (continued)

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

Actuarial assumptions	Methods
Mortality	A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update Lifeco's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Improvement scales for life insurance and annuitant mortality are updated periodically based on population and industry studies, product-specific considerations, as well as professional guidance. In addition, appropriate provisions have been made for future mortality deterioration on term insurance. Annuitant mortality is also studied regularly and the results are used to modify established annuitant mortality tables.
Morbidity	Lifeco uses industry-developed experience tables modified to reflect emerging Lifeco experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.
Property and casualty reinsurance	Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of Canada Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities are based on cession statements provided by ceding companies. In addition, insurance contract liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in net earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.
Investment returns	The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (refer to Note 22).
Expenses	Contractual policy expenses (e.g., sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the CALM as inflation is assumed to be correlated with new money interest rates.
Policy termination	Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited. Lifeco's most significant exposures are in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of term for renewable term policies in Canada and Capital and Risk Solutions. Industry experience has guided Lifeco's assumptions for these products as Lifeco's own experience is very limited.
Utilization of elective policy options	There are a wide range of elective options embedded in the policies issued by Lifeco. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee resets (segregated fund maturity guarantees). The assumed rates of utilization are based on Lifeco or industry experience when it exists and, when not, on judgment considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.
Policyholder dividends and adjustable policy features	Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is Lifeco's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability on shareholders' earnings is reflected in the changes in best estimate assumptions above.

NOTE 12 Insurance and Investment Contract Liabilities (continued)**RISK MANAGEMENT****Insurance risk**

Insurance risk is the risk that the insured event occurs and that there are large deviations between expected and actual actuarial assumptions, including mortality, persistency, longevity, morbidity, expense variations and investment returns.

Lifeco is in the business of accepting risk associated with insurance contract liabilities. Lifeco's objective is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of its underwriting strategy guidelines, and through the use of reinsurance arrangements.

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

	Increase (decrease) in net earnings	
	2020	2019
Mortality – 2% increase	(288)	(279)
Annuitant mortality – 2% decrease	(756)	(601)
Morbidity – 5% adverse change	(279)	(253)
Investment returns		
Parallel shift in yield curve		
1% increase	–	–
1% decrease	–	–
Change in interest rates		
1% increase	224	175
1% decrease	(920)	(619)
Change in publicly traded common share values		
20% increase	28	54
10% increase	15	27
10% decrease	(51)	(39)
20% decrease	(208)	(182)
Change in other non-fixed income asset values		
10% increase	34	60
5% increase	6	25
5% decrease	(69)	(28)
10% decrease	(108)	(90)
Change in best estimate return assumptions for equities		
1% increase	556	509
1% decrease	(682)	(585)
Expenses – 5% increase	(165)	(125)
Policy termination and renewal – 10% adverse change	(1,017)	(813)

NOTE 12 Insurance and Investment Contract Liabilities (continued)

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.

	December 31, 2020			December 31, 2019		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Canada	81,556	439	81,117	74,939	251	74,688
United States	76,793	15,921	60,872	43,689	15,103	28,586
Europe ^[1]	48,243	5,622	42,621	45,662	5,230	40,432
Capital and Risk Solutions ^[1]	11,455	139	11,316	11,887	123	11,764
	218,047	22,121	195,926	176,177	20,707	155,470

[1] See comparative figures (Note 2).

Reinsurance risk

Maximum limits per insured life benefit amount (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds-withheld basis where Lifeco retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

NOTE 13 Obligations to Securitization Entities

IGM securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC)-sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as IGM retains prepayment risk and certain elements of credit risk. Accordingly, IGM has retained these mortgages on its balance sheets and has recorded offsetting liabilities for the net proceeds received as obligations to securitization entities which are carried at amortized cost.

IGM earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, IGM enters into a swap transaction whereby IGM pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of \$1 million at December 31, 2020 (a negative fair value of \$6 million in 2019).

NOTE 13 Obligations to Securitization Entities (continued)

The Government of Canada introduced measures to support Canadians through the COVID-19 crisis where mortgage payments can be deferred for up to six months and repaid over the life of the mortgage. The program expired for new applicants on September 30, 2020. Under the NHA MBS and CMB Programs, IGM has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Programs are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, IGM has provided cash reserves for credit enhancement which are carried at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP trusts have no recourse to IGM's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

	December 31, 2020			December 31, 2019		
	Securitized mortgages	Obligations to securitization entities	Net	Securitized mortgages	Obligations to securitization entities	Net
Carrying value						
NHA MBS and CMB Programs	3,216	3,307	(91)	3,891	3,939	(48)
Bank-sponsored ABCP	2,768	2,867	(99)	2,939	2,975	(36)
Total	5,984	6,174	(190)	6,830	6,914	(84)
Fair value	6,186	6,345	(159)	6,908	6,997	(89)

The carrying value of obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation using an effective interest method.

NOTE 14 Power Corporation's Debentures and Other Debt Instruments

	December 31, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
POWER CORPORATION				
Debentures				
8.57% debentures due April 22, 2039, unsecured	150	259	150	247
4.81% debentures due January 31, 2047, unsecured	248	327	248	292
4.455% debentures due July 27, 2048, unsecured	248	317	248	280
	646	903	646	819
Other Debt Instruments				
Revolving credit facility with interest equal to LIBOR plus 0.65%, unsecured	110	110	37	37
Total Power Corporation	756	1,013	683	856

CHANGES IN OTHER DEBT INSTRUMENTS

The table below details changes in the other debt instruments arising from financing activities, including both cash and non-cash changes.

	December 31, 2020,	December 31, 2019,
Balance, beginning of the year	683	646
Increase in other debt instruments	63	37
Changes in foreign exchange rates and other	10	-
Balance, end of year	756	683

There are no principal repayments on debentures in each of the next five years.

NOTE 15 Non-Recourse Debentures and Other Debt Instruments**A) POWER FINANCIAL, LIFECO AND IGM**

The following table presents the debentures and other debt instruments issued by Power Financial, Lifeco and IGM. The 6.90% debentures of Power Financial are direct obligations of Power Financial and are non-recourse to the Corporation. All debentures and other debt instruments of Lifeco and its subsidiaries are direct obligations of Lifeco or its subsidiaries, as applicable, and are non-recourse to the Corporation. All of the debentures of IGM are direct obligations of IGM and are non-recourse to the Corporation.

	December 31, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
POWER FINANCIAL				
Debentures				
6.90% debentures due March 11, 2033, unsecured	250	355	250	343
Total Power Financial	250	355	250	343
LIFECO				
Debentures				
4.65% debentures due August 13, 2020, unsecured (repaid during 2020)	-	-	500	508
2.50% debentures due April 18, 2023 (€500 million), unsecured	774	825	728	788
1.75% debentures due December 7, 2026 (€500 million), unsecured	771	857	725	785
3.337% debentures due February 28, 2028, unsecured	498	566	498	526
6.40% subordinated debentures due December 11, 2028, unsecured	100	135	100	128
2.379% debentures due May 14, 2030, unsecured	597	637	-	-
6.74% debentures due November 24, 2031, unsecured	195	287	194	278
6.67% debentures due March 21, 2033, unsecured	394	575	393	557
5.998% debentures due November 16, 2039, unsecured	342	504	342	487
2.981% debentures due July 8, 2050, unsecured	493	514	-	-
7.529% capital trust debentures due June 30, 2052 (face value of \$150 million), unsecured	158	222	159	221
	4,322	5,122	3,639	4,278
Other Debt Instruments				
Commercial paper and other short-term debt instruments with interest rates from 0.223% to 0.274% (1.828% to 2.089% at December 31, 2019), unsecured	125	125	130	130
Revolving credit facility with interest equal to LIBOR plus 0.70% (US\$165 million)(US\$230 million at December 31, 2019), unsecured	210	210	299	299
Revolving credit facility with interest equal to LIBOR plus 1.00% (US\$500 million), unsecured	635	635	-	-
Senior notes due August 12, 2025, bearing an interest rate of 0.904% (US\$500 million), unsecured	631	638	-	-
Senior notes due September 17, 2027, bearing an interest rate of 1.357% (US\$400 million), unsecured	505	512	-	-
Senior notes due May 17, 2028, bearing an interest rate of 4.047% (US\$300 million), unsecured	379	420	388	430
Senior notes due March 17, 2031, bearing an interest rate of 1.776% (US\$400 million), unsecured	505	521	-	-
Senior notes due June 3, 2047, bearing an interest rate of 4.15% (US\$700 million), unsecured	874	970	894	993
Senior notes due May 17, 2048, bearing an interest rate of 4.581% (US\$500 million), unsecured	628	732	643	749
Senior notes due September 17, 2051, bearing an interest rate of 3.075% (US\$700 million), unsecured	879	984	-	-
	5,371	5,747	2,354	2,601
Total Lifeco	9,693	10,869	5,993	6,879

NOTE 15 Non-Recourse Debentures and Other Debt Instruments (continued)

	December 31, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
IGM FINANCIAL				
Debentures				
3.44% debentures due January 26, 2027, unsecured	400	444	400	413
6.65% debentures due December 13, 2027, unsecured	125	165	125	155
7.45% debentures due May 9, 2031, unsecured	150	216	150	205
7.00% debentures due December 31, 2032, unsecured	175	251	175	236
7.11% debentures due March 7, 2033, unsecured	150	216	150	204
6.00% debentures due December 10, 2040, unsecured	200	280	200	264
4.56% debentures due January 25, 2047, unsecured	200	248	200	227
4.115% debentures due December 9, 2047, unsecured	250	294	250	265
4.174% debentures due July 13, 2048, unsecured	200	238	200	214
4.206% debentures due March 21, 2050, unsecured	250	302	250	271
Debentures of IGM held by Lifeco as investments	(88)	(110)	(101)	(119)
Total IGM	2,012	2,544	1,999	2,335
Total Power Financial, Lifeco and IGM	11,955	13,768	8,242	9,557

LIFECO

On May 14, 2020, Lifeco issued \$600 million aggregate principal amount 2.379% debentures at par, maturing on May 14, 2030. Interest on the debentures is payable semi-annually in arrears on May 14 and November 14 in each year, commencing November 14, 2020 until the date on which the debentures are repaid. The debentures are redeemable at any time prior to February 14, 2030 in whole or in part at the greater of the Canada Yield Price (as defined in the trust indenture governing the debentures) and par, and on or after February 14, 2030 in whole or in part at par, together in each case with accrued and unpaid interest.

On July 8, 2020, Lifeco issued \$250 million aggregate principal amount 2.981% debentures at par, maturing on July 8, 2050. Interest on the debentures is payable semi-annually in arrears on January 8 and July 8 in each year, commencing January 8, 2021 until the date on which the debentures are repaid. The debentures are redeemable at any time prior to January 8, 2050 in whole or in part at the greater of the Canada Yield Price (as defined in the trust indenture governing the debentures) and par, and on or after January 8, 2050 in whole or in part at par, together in each case with accrued and unpaid interest.

On July 13, 2020, Lifeco announced the reopening of the offering of 2.981% debentures due July 8, 2050, and on July 15, 2020 issued an additional \$250 million aggregate principal amount. The July 15, 2020 debentures were issued at a price of \$986.31 per \$1,000 par value for an effective yield of 3.051%. Upon issuance of the July 15, 2020 debentures, \$500 million aggregate principal amount of 2050 debentures was issued and outstanding. The July 15, 2020 debentures form a single series with, are issued under the same Committee on Uniform Securities Identification Procedures (CUSIP) number as, and have the same terms as to status, redemption or otherwise as, the initial debentures issued on July 8, 2020.

On August 12, 2020, Great-West Lifeco U.S. Finance 2020, LP, a subsidiary of Lifeco, issued \$663 million (US\$500 million) aggregate principal amount of 0.904% senior notes due August 12, 2025. The senior notes are fully and unconditionally guaranteed by Lifeco.

On August 13, 2020, Lifeco repaid the principal amount of its maturing 4.65% \$500 million debentures, together with accrued interest.

NOTE 15 Non-Recourse Debentures and Other Debt Instruments (continued)

On September 17, 2020, Empower Finance 2020, LP, a subsidiary of Lifeco, issued \$526 million (US\$400 million) aggregate principal amount of 1.357% senior notes due September 17, 2027, \$526 million (US\$400 million) aggregate principal amount of 1.776% senior notes due March 17, 2031 and \$921 million (US\$700 million) aggregate principal amount of 3.075% senior notes due September 17, 2051. The senior notes are fully and unconditionally guaranteed by Lifeco.

On November 2, 2020, Great-West Lifeco U.S. LLC, a subsidiary of Lifeco, established a 1-year \$635 million (US\$500 million) revolving credit facility with interest on the drawn balance equal to the LIBOR rate plus 1.00%. The facility is fully and unconditionally guaranteed by Lifeco. The facility was fully drawn as at December 31, 2020, with the proceeds used to finance a portion of the MassMutual retirement services business acquisition (Note 3).

Capital Trust Debentures

Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued \$150 million of Canada Life Capital Securities – Series B (CLiCS – Series B), the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of \$150 million.

Distributions and interest on the capital trust debentures are classified as financing charges in the statements of earnings (Note 24). The fair value for capital trust securities is determined by the bid-ask price.

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

CHANGES IN DEBENTURES AND OTHER DEBT INSTRUMENTS – POWER FINANCIAL, LIFECO AND IGM

The table below details changes in the debentures and other debt instruments arising from financing activities, including both cash and non-cash changes.

	December 31, 2020	December 31, 2019
Balance, beginning of the year	8,242	8,473
Issue of debentures and senior notes	3,713	250
Redemption of debentures	(500)	(232)
Increase in other debt instruments	539	1
Decrease in other debt instruments	(1)	(28)
Changes in foreign exchange rates and other	(38)	(222)
Balance, end of year	11,955	8,242

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

2021	970
2022	-
2023	775
2024	-
2025	635
Thereafter	9,641

NOTE 15 Non-Recourse Debentures and Other Debt Instruments (continued)**B) ALTERNATIVE ASSET INVESTMENT PLATFORMS AND OTHER – PROJECT AND OTHER DEBT**

The following table presents the other debt instruments held by alternative asset investment platforms and other. All other debt instruments are credit or loan facilities that are direct obligations, and secured by the assets, of subsidiaries of the Corporation and are non-recourse to the Corporation.

	December 31, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
OTHER DEBT INSTRUMENTS				
Investment Funds				
Revolving credit facilities up to US\$100 million, with interest equal to LIBOR plus 1.9%, secured	5	5	-	-
Revolving credit facility up to \$80 million, with interest equal to prime rate plus 0.3%, secured	23	23	8	8
Renewable Energy – Project debt				
Construction loan facilities up to US\$55 million, due from January 29, 2021 to March 31, 2021, with interest equal to LIBOR plus margin between 1.5% and 2.25% (US\$31 million), secured	38	38	-	-
Construction loan facility up to US\$75 million, due December 23, 2021, with interest equal to 4.29% (6.25% in 2019)(US\$59 million)(US\$18 million in 2019), secured	72	72	20	20
Construction loan facility up to \$254 million, due August 5, 2045, with interest equal to 3.62%, secured	199	216	-	-
Loan facilities due from December 2021 to January 2028, bearing interest at various rates from 3.0% to 5.5% (US\$24 million) secured	32	32	-	-
Loan facilities due from March 31, 2024 to December 15, 2037, bearing interest at various rates from 3.33% to 6.0%, secured	570	614	466	480
Loan facilities due from June 17, 2025 to September 30, 2037, bearing interest at various rates from 4.82% to 7.0% (US\$54 million)(US\$69 million in 2019), secured	69	76	87	90
Mezzanine loans due from January 2, 2035 to June 30, 2035, bearing interest at various rates from 7.36% to 7.5%, secured	100	111	102	106
Loan facilities due from June 30, 2034 to August 31, 2035, bearing interest at various rates from 4.7% to 6.07%, secured	68	78	25	27
Loan facilities due March 15, 2036, bearing interest at a rate of 4.4% (US\$22 million) (US\$23 million in 2019), secured	28	33	30	32
Standalone Businesses				
Revolving credit facility up to \$40 million with interest equal to prime rate plus 1.25% to 3.75%, secured	10	10	28	28
Term loan facilities due in June and December 2022, bearing interest at various floating rates (an effective rate from 6.0% to 11.0%), secured	130	130	129	129
Term loans due January 17, 2020 and revolving credit facilities, bearing interest at various rates from 9.25% to 15.0% (US\$91 million in 2019), secured	-	-	118	118
Total alternative asset investment platforms and other	1,344	1,438	1,013	1,038

RENEWABLE ENERGY**Potentia Renewables Inc.**

On February 10, 2020, Potentia, a wholly owned subsidiary of the Corporation, entered into a \$254 million non-recourse hybrid construction and term loan facility with floating and fixed rates. Both components will convert to term loans with maturities ranging from 7 to 25 years after the commercial operation date.

On June 10, 2020, Potentia acquired a controlling interest in a portfolio of operating renewable energy projects from Firelight Infrastructure Partners LP. Potentia partially financed this acquisition with a \$35 million term loan due in February 2035 which bears interest of 4.75%, and Potentia assumed project debt of \$145 million due from December 2033 to June 2034 which bears interest at rates from 5.0% to 6.06% (Note 3).

Nautilus Solar Energy, LLC

Nautilus, a wholly owned subsidiary of the Corporation, entered into various non-recourse construction facilities of up to US\$130 million. These facilities are used to fund construction costs for solar facilities and are converted to term loans after the commercial operations date.

NOTE 15 Non-Recourse Debentures and Other Debt Instruments (continued)**CHANGES IN OTHER DEBT INSTRUMENTS – ALTERNATIVE ASSET INVESTMENT PLATFORMS AND OTHER**

The table below details changes in the other debt instruments arising from financing activities, including both cash and non-cash changes.

	December 31 2020,	December 31 2019,
Balance, beginning of the year	1,013	858
Acquisitions [Note 3]	145	153
Derecognition [Note 3]	(129)	-
Increase in other debt instruments	441	108
Decrease in other debt instruments	(130)	(93)
Changes in foreign exchange rates and other	4	(13)
Balance, end of year	1,344	1,013

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

2021	210
2022	172
2023	50
2024	54
2025	91
Thereafter	788

NOTE 16 Other Liabilities

	December 31, 2020	December 31, 2019
Accounts payable	3,186	3,436
Bank overdraft	444	379
Dividends and interest payable	493	468
Income taxes payable	355	468
Deferred income reserves	345	380
Deposits and certificates	2,247	886
Funds held under reinsurance contracts	1,648	1,433
Pension and other post-employment benefits [Note 25]	2,395	2,177
Lease liabilities	869	1,022
Limited-life and redeemable fund units	916	838
Other	2,814	2,220
	15,712	13,707

Total Other liabilities of \$9,294 million as at December 31, 2020 (\$8,291 million as at December 31, 2019) are expected to be settled within 12 months.

LEASE LIABILITIES

The table below details changes in the Corporation's lease liabilities for the year ended December 31, 2020.

	December 31, 2020	December 31, 2019
Lease liabilities, beginning of year	1,022	951
Additions	113	168
Business acquisitions and acquisition of assets	-	45
Derecognition [Note 3]	(134)	-
Modifications	(7)	(22)
Lease payments	(143)	(140)
Interest	33	41
Change in foreign exchange rates and other	(15)	(21)
Lease liabilities, end of year	869	1,022

The table below presents the contractual undiscounted cash flows for lease obligations in each of the next five years and thereafter:

2021	136
2022	118
2023	100
2024	90
2025	82
Thereafter	630
Total undiscounted lease liabilities at December 31, 2020	1,156

NOTE 17 Income Taxes**INCOME TAXES**

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

	Years ended December 31,	
	2020	2019
Current taxes	457	356
Deferred taxes		
Origination and reversal of temporary differences	(150)	(13)
Expense (recovery) arising from unrecognized (recognized) tax losses, tax credits and temporary differences of prior periods	(236)	222
Effect of change in tax rates or imposition of new taxes and other	6	(11)
	(380)	198
	77	554

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

	December 31, 2020		December 31, 2019	
	Other comprehensive income	Equity	Other comprehensive income	Equity
Current taxes	28	–	4	78
Deferred taxes (recovery)	3	–	(21)	20
	31	–	(17)	98

EFFECTIVE INCOME TAX RATE

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

	Years ended December 31,	
	2020	2019
	%	%
Combined statutory Canadian federal and provincial tax rates	26.5	26.6
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(9.8)	(5.2)
Lower effective tax rates on income not subject to tax in Canada	(10.3)	(8.8)
Share of earnings of investments in jointly controlled corporations and associates	(0.6)	(1.5)
Impact of rate changes on deferred taxes	0.2	(0.3)
Other ^{[1][2]}	(3.9)	4.6
Effective income tax rate	2.1	15.4

[1] In 2020, Other includes the impact of an increase in the recognized deferred tax asset of one of Lifeco's subsidiaries of \$196 million due to the revision by the management of Lifeco of its estimates of future taxable profit, which decreased the effective income tax by 5.4%.

[2] In 2019, Other includes the impact of a decrease in the recognized deferred tax asset of one of Lifeco's subsidiaries due to timing uncertainty in projected taxable income available to utilize certain restricted net operating losses which resulted in a \$199 million charge and increased the effective income tax rate by 5.5%. This was partially offset by a \$101 million benefit at Lifeco due to the resolution of an outstanding issue with a foreign tax authority which reduced the effective income tax rate by 2.8%.

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

Composition and changes in net deferred taxes are as follows:

	Insurance and investment contract liabilities	Investments	Loss carry forwards	Intangible assets	Defined benefit plans	Tax credits and other	Total
For the year ended December 31, 2020							
Balance, beginning of year	(999)	(576)	1,151	(921)	406	244	(695)
Recognized in							
Statements of earnings	375	(232)	268	(60)	9	20	380
Statements of comprehensive income	-	(76)	-	-	59	14	(3)
Statements of changes in equity	-	-	-	-	-	-	-
Business acquisitions	300	-	107	(113)	-	18	312
Foreign exchange rate changes and other	4	19	(5)	26	(2)	(35)	7
Balance, end of year	(320)	(865)	1,521	(1,068)	472	261	1

	Insurance and investment contract liabilities	Investments	Loss carry forwards	Intangible assets	Defined benefit plans	Tax credits and other	Total
For the year ended December 31, 2019 ^[1]							
Balance, beginning of year	(1,379)	(378)	1,468	(893)	372	313	(497)
Recognized in							
Statements of earnings	352	(173)	(261)	(41)	(18)	(57)	(198)
Statements of comprehensive income	-	(27)	-	-	55	(7)	21
Statements of changes in equity	(20)	-	-	-	-	-	(20)
Business acquisitions	-	-	(1)	(1)	-	-	(2)
Foreign exchange rate changes and other	48	2	(55)	14	(3)	(5)	1
Balance, end of year	(999)	(576)	1,151	(921)	406	244	(695)

[1] Due to a change in presentation, the Corporation reclassified the composition of net deferred taxes. The reclassification had no impact on the equity or net earnings of the Corporation (Note 2).

	December 31, 2020	December 31, 2019
Presented on the balance sheets as follows:		
Deferred tax assets	1,082	802
Deferred tax liabilities	(1,081)	(1,497)
	1	(695)

Management of the Corporation and of its subsidiaries assess the recoverability of the deferred tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2020 are recoverable.

At December 31, 2020, a deferred tax asset of \$1,411 million (\$1,056 million at December 31, 2019) is recognized by Lifeco on tax loss carry forwards totalling \$8,264 million. Of this amount, \$6,579 million expires between 2021 and 2040, while \$1,685 million has no expiry date. Lifeco will realize this benefit in future years through a reduction in current income taxes payable.

NOTE 17 Income Taxes (continued)

A subsidiary of Lifeco has had a history of losses. The subsidiary has a net deferred tax asset balance of \$561 million (US\$442 million) as at December 31, 2020 composed principally of net operating losses and future deductions related to goodwill. During the year ended December 31, 2020, management of Lifeco revised its estimates of future taxable profits to reflect the impact of the completion of the U.S. acquisitions of Personal Capital and MassMutual (Note 3) and as a result recognized a deferred tax asset of \$192 million (US\$151 million) related to losses that had previously been derecognized in 2019. The deferred tax asset increase resulted in an income tax recovery of \$196 million (US\$151 million) in the statement of earnings. In 2019, the deferred tax asset decrease resulted in a charge to income tax expense of \$199 million (US\$151 million). Management of Lifeco has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated United States income tax return will generate sufficient taxable income to utilize the unused United States losses and deductions for which a deferred tax asset has been recognized.

As at December 31, 2020, the Corporation and its subsidiaries have non-capital losses of \$1,316 million (\$2,297 million in 2019) available to reduce future taxable income for which the benefits have not been recognized. Of this amount, \$1,253 million expires from 2021 to 2040, while \$63 million has no expiry date. In addition, the Corporation and its subsidiaries have capital loss carry forwards of \$340 million (\$300 million in 2019) that can be used indefinitely to offset future capital gains for which the benefits have not been recognized.

As at December 31, 2020, the Corporation and its subsidiaries have deductible temporary differences of \$518 million (\$590 million in 2019) for which the benefits have not been recognized. As at December 31, 2020 and 2019, no deferred tax liability was recognized in respect to temporary differences associated with investments in subsidiaries and jointly controlled corporations as the Corporation and its subsidiaries are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTE 18 Stated Capital**AUTHORIZED**

The authorized capital of Power Corporation consists of an unlimited number of First Preferred Shares, issuable in series; an unlimited number of Participating Preferred Shares; and an unlimited number of Subordinate Voting Shares.

ISSUED AND OUTSTANDING

	December 31, 2020		December 31, 2019	
	Number of shares	Stated capital	Number of shares	Stated capital
		\$		\$
Non-Participating Shares				
First Preferred Shares				
Cumulative Redeemable				
1986 Series	129,400	6	209,400	10
Non-cumulative Redeemable, fixed rate				
Series A	6,000,000	150	6,000,000	150
Series B	8,000,000	200	8,000,000	200
Series C	6,000,000	150	6,000,000	150
Series D	10,000,000	250	10,000,000	250
Series G	8,000,000	200	8,000,000	200
Total Non-Participating Shares		956		960
Participating Shares				
Participating Preferred Shares				
Balance, beginning of year	48,854,772	27	48,854,772	27
Issued	6,006,094	206	-	-
Balance, end of year	54,860,866	233	48,854,772	27
Subordinate Voting Shares				
Balance, beginning of year	377,614,607	699	417,101,146	739
Issued pursuant to the Reorganization	250,628,173	8,687	-	-
Issued under Stock Option Plan	1,497,952	48	1,422,502	33
Purchased for cancellation under normal course issuer bid	(7,352,500)	(110)	-	-
Purchased for cancellation under substantial issuer bid	-	-	(40,909,041)	(73)
Balance, end of year	622,388,232	9,324	377,614,607	699
Total Participating Shares		9,557		726

Non-Participating Shares

The Cumulative Redeemable First Preferred Shares, 1986 Series are entitled to a quarterly cumulative dividend, at a floating rate equal to one quarter of 70% of the average of the prime rates quoted by two major Canadian chartered banks. The shares are redeemable by the Corporation at \$50.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption. The Corporation will make all reasonable efforts to purchase for cancellation, on the open market, 20,000 shares per quarter, at a price not exceeding \$50.00 per share. In 2020, 80,000 shares (37,800 shares in 2019) were purchased for cancellation.

The following First Preferred Shares series are entitled to fixed non-cumulative preferential cash dividends payable quarterly. The Corporation may redeem for cash the First Preferred Shares in whole or in part, at the Corporation's option, with all declared and unpaid dividends to, but excluding, the date of redemption. The dividends and redemption terms are as follows:

First Preferred Shares	Cash dividends payable quarterly	Earliest issuer redemption date	Redemption price
	(\$/share)		(\$/share)
Non-cumulative, fixed rate			
Series A, 5.60%	0.350000	Currently redeemable	25.00
Series B, 5.35%	0.334375	Currently redeemable	25.00
Series C, 5.80%	0.362500	Currently redeemable	25.00
Series D, 5.00%	0.312500	Currently redeemable	25.00
Series G, 5.60%	0.350000	Currently redeemable	25.25

NOTE 18 Stated Capital (continued)**Participating Shares**

Participating Preferred Shares are entitled to ten votes per share; and, subject to the rights of holders of the First Preferred Shares, to a non-cumulative dividend of 0.9375¢ per share per annum before dividends on the Subordinate Voting Shares and have the further right to participate, share and share alike, with the holders of the Subordinate Voting Shares in any dividends that may be paid with respect to the Subordinate Voting Shares.

Subordinate Voting Shares are entitled to one vote per share. In 2020, 1,497,952 Subordinate Voting Shares (1,422,502 in 2019) were issued under the Corporation's Executive Stock Option Plan for a consideration of \$42 million (\$30 million in 2019).

Dividends declared on the Corporation's participating shares in 2020 were \$1.79 per share (\$2.002 per share in 2019).

Reorganization

On February 12, 2020, in connection with the Reorganization (Note 2), and in accordance with the Pre-emptive Right, the Corporation issued 6,006,094 Participating Preferred Shares to holders who duly exercised the Pre-emptive Right at a price of \$34.27 per Participating Preferred Share, representing a cash consideration of \$206 million.

Also, on February 13, 2020, the Corporation acquired 238,693,580 Power Financial Common Shares, in exchange for 1.05 Subordinate Voting Shares of the Corporation and \$0.01 per share in cash. The Corporation issued 250,628,173 Subordinate Voting Shares at a price of \$34.66 per Subordinate Voting Share and \$2 million in cash, for a total consideration of \$8.7 billion.

Normal Course Issuer Bid

The Corporation commenced a Normal Course Issuer Bid (NCIB) on February 20, 2020 which was effective until the earlier of February 19, 2021 and the date on which the Corporation has purchased the maximum permitted number of Subordinate Voting Shares. Pursuant to this bid, the Corporation was authorized to purchase up to 30 million of its Subordinate Voting Shares outstanding as at February 20, 2020 (representing approximately 5.2% of the public float of Subordinate Voting Shares outstanding) at market prices.

During the first quarter of 2020, the Corporation purchased for cancellation 7,352,500 Subordinate Voting Shares pursuant to its NCIB at a price of \$193 million. The Corporation's share capital was reduced by the average carrying value of the shares repurchased for cancellation. The excess paid over the average carrying value of stated capital was \$83 million and was recognized as a reduction to retained earnings. At the end of March 2020, in light of the market environment, the Corporation temporarily suspended its share buybacks and did not make any further purchases before the expiry of the NCIB.

Subsequent event

On February 25, 2021, the Corporation commenced a Normal Course Issuer Bid (NCIB) which is effective until the earlier of February 24, 2022 and the date on which the Corporation has purchased the maximum permitted number of Subordinate Voting Shares. Pursuant to the NCIB, the Corporation may purchase up to 30 million of its Subordinate Voting Shares outstanding as at February 17, 2021, (representing approximately 5.3% of the public float of Subordinate Voting Shares outstanding) at market prices. The Corporation decided to commence share buybacks at the end of February of 2021 to offset dilution from the exercise of employee stock options. At March 17, 2021, the Corporation has repurchased 1,160,000 Subordinate Voting Shares at a price of \$36 million.

Substantial Issuer Bid

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

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

As part of the Reorganization, the Corporation assumed the Power Financial Employee Stock Option Plan. The 13,079,888 options outstanding at February 13, 2020 under the Power Financial Employee Stock Option Plan (Existing Options) were exchanged for 13,733,786 options to acquire Subordinate Voting Shares of the Corporation (Replacement Options).

The Replacement Options entitle the option holders to receive 1.05 Subordinate Voting Shares of Power Corporation (PCC Shares) for each common share of Power Financial (PFC Shares) at a subscription price per PCC Share equal to the subscription price per PFC Share, under the existing Power Financial Employee Stock Option Plan, divided by 1.05. The other terms of the Replacement Options are the same as the terms of the Existing Options, including terms with respect to vesting, expiry of options and termination of employment.

There are 21,170,855 Subordinate Voting Shares and 12,972,010 Subordinate Voting Shares reserved for issuance under Power Corporation's Executive Stock Option Plan and under Power Financial's Employee Stock Option Plan, assumed by Power Corporation, respectively. The plan requires that the exercise price of the option must not be less than the market value of a share on the date of the grant of the option.

A summary of the status of Power Corporation's Executive Stock Option Plan as at December 31, 2020 and 2019, and changes during the respective years ended is as follows:

	2020		2019	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		\$		\$
Outstanding, beginning of year	16,356,062	29.35	16,453,341	28.43
Assumption of Power Financial stock option plan	13,733,786	30.93	-	-
Granted	3,994,258	34.23	1,325,223	31.84
Exercised	(1,497,952)	27.89	(1,422,502)	21.09
Forfeited and expired	(1,101,729)	30.08	-	-
Outstanding, end of year	31,484,425	30.70	16,356,062	29.35
Options exercisable, end of year	19,458,880	29.92	11,873,872	28.96

The following table summarizes information about stock options outstanding at December 31, 2020:

Range of exercise prices	Expiry date	Options outstanding			Options exercisable	
		Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
\$			(yrs)	\$		\$
25.12 - 28.75	2021	2,213,325	0.4	26.73	2,213,325	26.73
23.73 - 36.53	2022	3,616,945	1.4	26.77	3,616,945	26.77
28.24 - 31.03	2023	3,328,311	2.4	28.87	3,328,311	28.87
28.51 - 33.68	2024	3,136,681	3.4	31.34	3,117,466	31.35
31.79 - 36.53	2025	3,834,520	4.2	34.47	2,934,520	34.55
27.30 - 30.79	2026	3,054,236	5.2	29.95	2,924,490	29.96
29.61 - 33.68	2027	2,647,612	6.2	32.74	1,323,823	32.74
28.51 - 30.27	2028	3,218,099	7.2	29.53	-	-
31.12 - 31.84	2029	3,343,066	8.3	31.40	-	-
34.23	2030	3,091,630	9.1	34.23	-	-
		31,484,425	4.8	30.70	19,458,880	29.92

NOTE 19 Share-Based Compensation (continued)**COMPENSATION EXPENSE**

During the year ended December 31, 2020, Power Corporation granted 3,994,258 options (1,325,223 options in 2019).

The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2020	2019
Dividend yield	5.1%	4.9%
Expected volatility	16.7%	15.6%
Risk-free interest rate	1.3%	1.8%
Expected life (years)	8.1	8.6
Fair value per stock option (\$/option)	1.93	1.87
Weighted-average exercise price (\$/option)	34.23	31.84

Generally, options granted vest on the basis of [i] the first 50%, three years from the date of the grant and [ii] the remaining 50% four years from the date of the grant. Options granted in 2020 have the following vesting conditions:

Maturity	Number of options	Vesting conditions
2030	3,072,892	Vest 1/3 after three years, 1/3 after four years and 1/3 after five years
2030	21,366	Vest 50% after three years and 50% after four years
2025	900,000	Vest 50% after three years and 50% after four years

Expected volatility has been estimated based on the historical volatility of the Corporation's share price over the expected option life.

Lifeco and IGM have also established stock option plans pursuant to which options may be granted to certain officers and employees. In addition, other subsidiaries of the Corporation have established share-based compensation plans. Compensation expense is recorded based on the fair value of the options or the fair value of the equity instruments at the grant date, amortized over the vesting period. Total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to \$71 million in 2020 (\$61 million in 2019) and is recorded in operating and administrative expenses in the statements of earnings.

PERFORMANCE SHARE UNIT PLAN

Power Corporation established a Performance Share Unit (PSU) Plan for selected employees and officers (participants) to assist in retaining and further aligning the interests of participants with those of the shareholders. Under the terms of the Plan, PSUs may be awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Corporation's Subordinate Voting Shares. The PSUs are cash settled and vest over a three-year period. Participants can elect at the time of grant to receive a portion of their PSUs in the form of performance deferred share units (PDSUs) which also vest over a three-year period. PDSUs are redeemable when a participant is no longer an employee of the Corporation or any of its affiliates, or in the event of the death of the participant, by a lump-sum cash payment based on the value of the PDSU at that time. Additional PSUs and PDSUs are issued in respect of dividends payable on Subordinate Voting Shares based on the value of the PSU or PDSU at the dividend payment date. The carrying value of the PSU liability of \$15 million (\$13 million in 2019) is recorded within other liabilities.

NOTE 19 Share-Based Compensation (continued)**DEFERRED SHARE UNIT PLAN**

Power Corporation established a Deferred Share Unit (DSU) Plan for its Directors to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this Plan, Directors participating in the Plan will receive half of their annual retainer in the form of DSUs and may elect to receive the remainder of their annual retainer entirely in the form of DSUs, entirely in cash, or equally in cash and DSUs. The number of DSUs granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the Subordinate Voting Shares of the Corporation on the last five days of the fiscal quarter (the value of a DSU). A Director will receive additional DSUs in respect of dividends payable on the Subordinate Voting Shares, based on the value of a DSU on the date on which the dividends were paid on the Subordinate Voting Shares. A DSU is payable, at the time a Director's membership on the Board is terminated (provided the Director is not then a director, officer or employee of an affiliate of the Corporation), or in the event of the death of a Director, by a lump-sum cash payment, based on the value of a DSU at that time. At December 31, 2020, the value of the DSUs outstanding was \$25 million (\$23 million in 2019) and is recorded within other liabilities. Alternatively, directors may participate in a Share Purchase Plan for Directors.

EMPLOYEE SHARE PURCHASE PROGRAM

Power Corporation established an Employee Share Purchase Program, giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of the Corporation on the open market. Power Corporation invests, on the employee's behalf, up to an equal amount.

OTHER SHARE-BASED AWARDS OF SUBSIDIARIES

Power Financial and other subsidiaries of the Corporation have also established other share-based awards and performance share unit plans (plans) for their directors, management and employees. Some of these plans are cash settled and included within other liabilities. Total compensation expense related to these subsidiary plans amounted to \$162 million in 2020 (\$125 million in 2019) and is recorded in operating and administrative expenses on the statements of earnings.

NOTE 20 Non-Controlling Interests

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

December 31, 2020	Lifeco	IGM	Power Financial	Other	Total
Common shareholders	6,267	1,552	-	292	8,111
Preferred shareholders	2,714	-	2,830	-	5,544
Participating account surplus	2,871	-	-	-	2,871
	11,852	1,552	2,830	292	16,526

December 31, 2019	Lifeco	IGM	Power Financial	Other	Total
Common shareholders	5,899	1,479	6,477	253	14,108
Preferred shareholders	2,714	-	2,830	-	5,544
Participating account surplus	2,759	-	-	-	2,759
	11,372	1,479	9,307	253	22,411

The non-controlling interests reflected in the balance sheets are as follows:

December 31, 2020	Lifeco	IGM	Power Financial	Other	Total
Non-controlling interests, beginning of year	11,372	1,479	9,307	253	22,411
Net earnings (losses) attributable to non-controlling interests	1,024	238	249	(23)	1,488
Other comprehensive income (loss) attributable to non-controlling interests	35	1	(31)	3	8
Dividends	(607)	(182)	(137)	-	(926)
Repurchase of common shares and redemption of preferred shares, net of issuance of equity instruments	18	1	(6,555)	114	(6,422)
Effect of changes in ownership interest and other	10	15	(3)	(55)	(33)
Non-controlling interests, end of year	11,852	1,552	2,830	292	16,526

December 31, 2019	Lifeco	IGM	Power Financial	Other	Total
Non-controlling interests, beginning of year	11,692	1,655	9,283	235	22,865
Net earnings (losses) attributable to non-controlling interests	827	254	833	(31)	1,883
Other comprehensive income (loss) attributable to non-controlling interests	(131)	(33)	37	(2)	(129)
Dividends	(584)	(186)	(578)	-	(1,348)
Repurchase of common shares and redemption of preferred shares, net of issuance of equity instruments ^[1]	(295)	(245)	(250)	55	(735)
Effect of changes in ownership interest and other ^[1]	(137)	34	(18)	(4)	(125)
Non-controlling interests, end of year	11,372	1,479	9,307	253	22,411

[1] Includes the impact of the purchase for cancellation of common shares by Power Financial and Lifeco under their substantial issuer bids.

NOTE 20 Non-Controlling Interests (continued)

Financial information of Lifeco and IGM as at and for the year ended December 31, 2020 can be obtained from their publicly available financial statements. Summarized financial information for Lifeco and IGM is as follows:

	2020		2019	
	Lifeco	IGM	Lifeco	IGM
Balance sheet				
Assets	600,490	16,062	451,167	15,391
Liabilities	573,475	11,019	425,624	10,892
Equity	27,015	5,043	25,543	4,499
Comprehensive income				
Net earnings	3,154	764	2,507	749
Other comprehensive income (loss)	(8)	264	(520)	(60)
Cash flows				
Operating activities	9,610	736	6,110	712
Financing activities	2,010	(1,358)	(3,981)	(1,069)
Investing activities	(8,202)	673	(1,539)	427

ACQUISITION OF COMMON SHARES IN POWER FINANCIAL

On February 13, 2020, the Corporation successfully completed the Reorganization and acquired 238,693,580 common shares of Power Financial held by minority interests in consideration of the issuance of 250,628,173 Subordinate Voting Shares of the Corporation and \$2 million paid in cash for a total consideration of \$8.7 billion. Subsequent to the Reorganization, the Corporation holds 100% of the issued and outstanding common shares of Power Financial. The excess of the purchase price over the carrying value of the non-controlling interests of \$6,555 million acquired was recorded as a decrease in retained earnings of \$2,847 million and as a reattribution of accumulated other comprehensive income and share-based compensation reserves of \$647 million and \$66 million, respectively. Costs of \$46 million related to the transaction were charged to retained earnings on the statements of changes in equity.

WEALTHSIMPLE

On October 14, 2020, Wealthsimple announced the closing of a \$114 million investment on a pre-money valuation of \$1.4 billion. The investment was led by TCV, one of the largest growth equity investors focused on technology, along with Greylock Partners, Meritech Capital, Allianz X and Two Sigma Ventures. As a result of the investment, these investors acquired an ownership interest of 7.5% on a fully diluted basis. With the closing of the investment, the Corporation now has an undiluted equity interest in Wealthsimple of 74.9%. The impact of the effect of the change in ownership resulted in a gain of \$77 million recorded in retained earnings in the statement of changes in equity in 2020.

NOTE 21 Capital Management

POWER CORPORATION

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

- provide attractive long-term returns to shareholders of the Corporation;
- provide sufficient financial flexibility to pursue its growth strategy to invest on a timely basis in its operating companies and other investments as opportunities present;
- maintain a capital structure that matches the long-term nature of its investments by maximizing the use of permanent capital; and
- maintain an appropriate credit rating to ensure stable access to the capital markets.

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

The capital structure of the Corporation consists of debentures, non-participating shares, participating shareholders' equity and non-controlling interests. The Corporation views non-participating shares as a cost-effective source of permanent capital. The Corporation is a long-term investor and as such holds positions in long-term investments as well as cash and fixed income securities for liquidity purposes.

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of participating shares, non-participating shares and debentures. The boards of directors of the Corporation's subsidiaries, as well as those of Groupe Bruxelles Lambert, oversee and have the responsibility for their respective company's capital management.

The Corporation itself is not subject to externally imposed regulatory capital requirements. However, Lifeco and certain of its main subsidiaries, IGM's subsidiaries and certain of the Corporation's other subsidiaries are subject to regulatory capital requirements and they manage their capital as described below.

LIFECO

Lifeco manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of Lifeco's capital management strategy are:

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of Lifeco ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholder value in the context of Lifeco's operational risks and strategic plans.

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

The target level of capitalization for Lifeco and its subsidiaries is assessed by considering various factors such as the probability of falling below the minimum regulatory capital requirements in the relevant operating jurisdiction, the views expressed by various credit rating agencies that provide financial strength and other ratings to Lifeco, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of Lifeco with a high degree of confidence.

NOTE 21 Capital Management (continued)

Lifeco's subsidiaries Canada Life, Great-West Life & Annuity and entities based in Europe are subject to minimum regulatory capital requirements.

- In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a regulatory capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries known as the Life Insurance Capital Adequacy Test (LICAT). The LICAT ratio compares the regulatory capital resources of a company to its required capital defined by OSFI as the aggregate of all defined capital requirements multiplied by a scalar of 1.05. The total capital resources are provided by the sum of available capital, surplus allowance and eligible deposits. OSFI has established a supervisory target total ratio of 100%, and a supervisory minimum total ratio of 90%. Canada Life's consolidated LICAT ratio at December 31, 2020 was 129% (135% at December 31, 2019).
- For entities based in Europe, the local solvency capital regime is the Solvency II basis. At December 31, 2020 and 2019, all Lifeco's European regulated entities met the capital and solvency requirements as prescribed under Solvency II.
- Great-West Life & Annuity is subject to the risk-based capital regulatory regime in the U.S.
- Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2020 and 2019, Lifeco maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

IGM FINANCIAL

IGM's capital management objective is to maximize shareholder returns while ensuring that IGM is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. IGM's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. IGM regularly assesses its capital management practices in response to changing economic conditions.

IGM's capital is primarily used in its ongoing business operations to support working capital requirements, long-term investments made by IGM, business expansion and other strategic objectives.

The IGM subsidiaries that are subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. At December 31, 2020 and 2019, IGM subsidiaries have complied with all regulatory capital requirements.

ALTERNATIVE ASSET INVESTMENT PLATFORMS AND OTHER

Certain subsidiaries are subject to regulatory capital requirements, including portfolio managers, asset managers and an order-execution-only broker. These subsidiaries are required to maintain levels of capital based on their working capital, liquidity or shareholders' equity. At December 31, 2020 and 2019, these subsidiaries have complied with all regulatory capital requirements.

NOTE 22 Risk Management

The Corporation and its subsidiaries have established policies, guidelines and procedures designed to identify, measure, monitor and mitigate risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk.

- Liquidity risk is the risk that the Corporation and its subsidiaries would not be able to meet all cash outflow obligations as they come due or be able to, in a timely manner, raise capital or monetize assets at normal market conditions.
- Credit risk is the potential for financial loss to the Corporation and its subsidiaries if a counterparty in a transaction fails to meet its payment obligations. Credit risk can be related to the default of a single debt issuer, the variation of credit spreads on tradable fixed income securities and also to counterparty risk relating to derivative products.
- Market risk is the risk that the market value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: foreign exchange risk, interest rate risk and equity risk.
 - Foreign exchange risk relates to the Corporation, its subsidiaries and its jointly controlled corporations and associates operating in different currencies and converting non-Canadian investments and earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.
 - Interest rate risk is the risk that the fair value of a financial instrument will fluctuate following changes in the interest rates.
 - Equity risk is the potential loss associated with the sensitivity of the market price of a financial instrument arising from volatility in equity markets.

This note to the financial statements includes estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons, including:

- assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered;
- changes in actuarial, investment return and future investment activity assumptions;
- actual experience differing from the assumptions;
- changes in business mix, effective tax rates and other market factors;
- interactions among these factors and assumptions when more than one changes; and
- the general limitations of internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above. Given the nature of these calculations, the Corporation cannot provide assurance that the actual impact on net earnings will be as indicated.

NOTE 22 Risk Management (continued)**POWER CORPORATION, POWER FINANCIAL AND ALTERNATIVE ASSET INVESTMENT PLATFORMS AND OTHER**

Liquidity risk, credit risk and market risk of Power Corporation, Power Financial and the Corporation's alternative asset investment platforms and other (other subsidiaries), including the impacts due to COVID-19, are discussed in the first section of this note. In subsequent sections, risks related to Lifeco and IGM are discussed.

Liquidity risk

Power Corporation is a holding company. As such, corporate cash flows are principally derived from dividends received from its subsidiaries and income from investments, less operating expenses, financing charges, income taxes and payment of dividends to its participating and non-participating shareholders. As a holding company, the Corporation's ability to pay dividends is dependent upon the Corporation receiving dividends from its principal operating subsidiaries and other investments. Lifeco and its subsidiaries are subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital ratios be maintained. IGM's subsidiaries are also subject to minimum capital requirements. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the operating subsidiary to pay dividends. In light of the COVID-19 pandemic, regulators are monitoring the impact of the pandemic to ensure that regulated companies maintain sufficient capital and liquidity. The declaration and payment of dividends by the Corporation in future periods remains at the discretion of its directors and is dependent on the operating performance, profitability, financial position and creditworthiness of its operating subsidiaries and other investments, as well as on their ability to pay dividends, which in turn will depend on the duration of the COVID-19 pandemic and the severity and duration of the financial impacts.

Power Corporation and Power Financial regularly review their liquidity requirements and seek to maintain sufficient levels of liquidities to meet their operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time, as defined in their policies. The ability of Power Corporation, Power Financial and other subsidiaries to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance and risk profile of Power Corporation, Power Financial and their subsidiaries.

Liquidity is also available through the Corporation's lines of credit with Canadian banks. The Corporation has a committed line of credit of \$250 million. The Corporation also maintains an uncommitted line of credit of \$100 million, and any advances are at the bank's sole discretion. At December 31, 2020, the Corporation utilized \$110 million (\$37 million in 2019) of its committed line of credit and the uncommitted line of credit was not utilized.

Other subsidiaries also have committed lines of credit of \$400 million with Canadian and U.S. banks (\$372 million was undrawn at December 31, 2020). Subsequent to year-end, Sagard 4 entered into a €100 million non-recourse credit facility with interest equal to LIBOR plus 1.70%. The credit facility is secured by the assets and unfunded commitments of Sagard 4.

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

	Payments due by period			Total
	Less than 1 year	1-5 years	After 5 years	
December 31, 2020				
Debentures and other debt instruments	320	367	1,688	2,375
Future lease payments	20	43	112	175
Pension contributions	5	-	-	5
	345	410	1,800	2,555

Power Corporation and Power Financial believe their ongoing cash flows from operations, available cash balances and liquidity available through their lines of credit are sufficient to address their liquidity needs.

Power Corporation, Power Financial and other subsidiaries' management of liquidity risk has not changed materially since December 31, 2019.

Credit risk

Fixed income securities and derivatives are subject to credit risk. Power Corporation and Power Financial mitigate credit risk on their fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum rating and concentration limits.

NOTE 22 Risk Management (continued)

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

Derivatives can also be used to mitigate foreign exchange exposures. Power Corporation and Power Financial regularly review the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

Other subsidiaries' financial instruments include other loans and are subject to credit risk. Other subsidiaries regularly review the credit ratings of their counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Power Corporation, Power Financial and other subsidiaries' exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2019.

Market risk

Power Corporation and Power Financial and other subsidiaries' financial instruments are comprised of cash and cash equivalents, fixed income securities, other investments (consisting of equity securities, other loans, investment funds and hedge funds), derivatives and debentures and other debt instruments.

a) Foreign exchange risk

In managing their own cash and cash equivalents as well as fixed income securities, Power Corporation, Power Financial and other subsidiaries may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Corporation and Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2020, approximately 78% (82% as at December 31, 2019) of Power Corporation, Power Financial and other subsidiaries' cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

Most of Power Corporation's other investments are classified as available for sale. As such, unrealized gains and losses on these investments, resulting from foreign exchange rate variations, are recorded in other comprehensive income until realized. As at December 31, 2020, the impact of a 5% strengthening of the Canadian dollar against foreign currencies would result in an unrealized loss recorded in other comprehensive income of approximately \$109 million (\$89 million as at December 31, 2019). Power Corporation's and Power Financial's debentures are denominated in Canadian dollars.

Power Corporation has net investments in foreign operations. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations are recorded in other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar and Chinese renminbi spot rates impacts the Corporation's total equity.

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in a company whose functional currency is the Swiss franc which itself is exposed to foreign exchange risk through GBL, whose functional currency is the euro. Foreign currency translation gains and losses on this investment are recorded in other comprehensive income. A 5% increase (decrease) in Canadian currency relative to the foreign currency would decrease (increase) the aggregate carrying value of foreign investment by approximately \$7 million (\$7 million in 2019).

Power Corporation is also exposed to foreign exchange risk on its investment in China AMC. Foreign currency translation gains and losses on this investment are recorded in other comprehensive income. A 5% increase (decrease) in Canadian currency relative to the foreign currency would decrease (increase) the aggregate carrying value of foreign investment by approximately \$35 million (\$32 million in 2019).

NOTE 22 Risk Management (continued)*b) Interest rate risk*

Power Corporation, Power Financial and other subsidiaries' financial instruments do not have significant exposure to interest rate risk.

c) Equity risk

Other investments are reviewed periodically to determine whether there is objective evidence of an impairment in value. During the year, the Corporation recorded investment impairment charges on available-for-sale investments amounting to \$35 million (\$40 million in 2019). As at December 31, 2020, the impact of a 10% decrease in the value of other investments would have resulted in an approximate \$179 million (\$164 million as at December 31, 2019) unrealized loss to be recorded in other comprehensive income.

GBL holds substantial investments classified as available for sale. Unrealized gains and losses on these investments are recorded in other comprehensive income until realized. These investments are reviewed periodically to determine whether there is objective evidence of an impairment in value. As at December 31, 2020, the impact of a 10% decline in equity markets would have resulted in an approximate \$400 million unrealized loss to be recorded in other comprehensive income, representing the Corporation's share of Parjointco's unrealized losses.

Power Corporation and Power Financial sponsor a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of Power Corporation. Power Corporation and Power Financial hedge their exposure to the equity risk associated with their PSU Plans through the use of total return swaps.

Other subsidiaries' financial instruments do not have significant exposure to equity risk.

LIFECO

The risk committee of the board of directors of Lifeco is responsible for the oversight of Lifeco's key risks.

Liquidity risk

Lifeco has the following policies and procedures in place to manage liquidity risk:

- Lifeco closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 48% (approximately 57% in 2019) of insurance and investment contract liabilities are non-cashable prior to maturity or claim, with a further approximately 26% (14% in 2019) of insurance and investment contract liabilities subject to fair value adjustments under certain conditions.
- Management of Lifeco closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. At December 31, 2020, Lifeco maintains \$350 million of liquidity at its level through committed lines of credit with Canadian chartered banks. As well, Lifeco maintains a \$150 million liquidity facility at Canada Life, a US\$500 million revolving credit agreement at Great-West Lifeco U.S. LLC, a US\$500 million revolving credit agreement with a syndicate of banks for use by Putnam, and a US\$50 million line of credit at Great-West Life & Annuity.

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

December 31, 2020	Payments due by period						Total
	1 year	2 years	3 years	4 years	5 years	After 5 years	
Debentures and other debt instruments	970	-	775	-	635	7,229	9,609
Capital trust debentures ^[1]	-	-	-	-	-	150	150
Purchase obligations	113	65	23	13	10	37	261
Future lease payments	88	78	67	60	54	387	734
Pension contributions	316	-	-	-	-	-	316
	1,487	143	865	73	699	7,803	11,070

[1] Payments due have not been reduced to reflect that Lifeco held capital trust securities of \$37 million principal amount (\$55 million carrying value).

NOTE 22 Risk Management (continued)**Credit risk**

Lifeco has the following policies and procedures in place to manage credit risk:

- Investment policies aim to minimize undue concentration within issuers, connected companies, industries or individual geographies.
- Investment limits specify minimum and maximum limits for each asset class.
- Identification of credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness. Internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies.
- Portfolios are monitored continuously, and reviewed regularly with the risk committee and the investment committee of the board of directors of Lifeco.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators. Lifeco manages derivative credit risk by including derivative exposure to aggregate credit exposures measured against rating-based obligor limits and through collateral arrangements where possible.
- Counterparties providing reinsurance to Lifeco are reviewed for financial soundness as part of an ongoing monitoring process. The minimum financial strength of reinsurers is outlined in Lifeco's Reinsurance Risk Management Policy. Lifeco seeks to minimize reinsurance credit risk by setting rating-based limits on net ceded exposure by counterparty as well as by seeking protection in the form of collateral or funds-withheld arrangements where possible.
- Investment guidelines also specify collateral requirements.

a) Maximum exposure to credit risk

The following table summarizes Lifeco's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	December 31, 2020	December 31, 2019
Cash and cash equivalents	7,946	4,628
Bonds		
Fair value through profit or loss	102,892	85,946
Available for sale	11,352	11,710
Loans and receivables	23,348	17,372
Mortgage loans	27,803	24,268
Loans to policyholders	8,387	8,601
Funds held by ceding insurers ^[1]	18,383	8,714
Reinsurance assets	22,121	20,707
Interest due and accrued	1,320	1,196
Accounts receivable	3,080	3,256
Premiums in course of collection	1,702	1,429
Trading account assets	713	1,092
Finance leases receivable	404	405
Other financial assets ^[2]	965	444
Derivative assets	829	451
Total balance sheet maximum credit exposure	231,245	190,219

[1] Includes \$16,325 million as at December 31, 2020 (\$6,741 million as at December 31, 2019) of funds held by ceding insurers where Lifeco retains the credit risk of the assets supporting the liabilities ceded (see Note 6).

[2] Includes items such as income taxes receivable and miscellaneous other assets of Lifeco.

NOTE 22 Risk Management (continued)

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of types of collateral and the valuation parameters. Management of Lifeco monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Lifeco has \$211 million of collateral received from counterparties as at December 31, 2020 (\$156 million as at December 31, 2019) relating to derivative assets.

As at December 31, 2020 \$15,690 million of the \$22,121 million of reinsurance assets are ceded to Protective Life (\$14,848 million of \$20,707 million at December 31, 2019). This concentration risk is mitigated by funds held in trust of \$16,389 million as at December 31, 2020 (\$15,948 million at December 31, 2019).

b) Concentrations 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 of such debtors are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

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

	December 31, 2020				
	Canada	United States	Europe	Capital and Risk Solutions	Total
Bonds issued or guaranteed by:					
Treasuries	586	272	10,282	1,372	12,512
Government-related	20,555	2,308	9,287	316	32,466
Agency securitized	178	926	-	17	1,121
Non-agency securitized	2,057	6,550	1,402	136	10,145
Financials	4,361	6,022	5,880	572	16,835
Communications	1,142	1,338	1,124	98	3,702
Consumer products	4,197	6,127	2,816	762	13,902
Energy	2,453	2,450	675	270	5,848
Industrials	2,022	4,585	1,329	406	8,342
Technology	557	1,324	299	263	2,443
Transportation	3,409	1,394	977	154	5,934
Utilities	10,091	4,485	4,811	553	19,940
Short-term bonds	2,332	557	1,066	447	4,402
	53,940	38,338	39,948	5,366	137,592

	December 31, 2019				
	Canada	United States	Europe ^[1]	Capital and Risk Solutions ^[1]	Total
Bonds issued or guaranteed by:					
Treasuries	479	72	10,118	1,068	11,737
Government-related	19,307	1,795	8,521	293	29,916
Agency securitized	110	1,111	-	10	1,231
Non-agency securitized	2,159	4,664	1,573	165	8,561
Financials	4,119	3,011	5,786	560	13,476
Communications	888	617	991	129	2,625
Consumer products	3,761	2,738	2,649	855	10,003
Energy	2,173	1,071	640	266	4,150
Industrials	1,764	2,057	1,281	454	5,556
Technology	552	727	302	265	1,846
Transportation	2,897	546	1,017	180	4,640
Utilities	9,145	2,377	4,426	527	16,475
Short-term bonds	2,680	720	1,049	363	4,812
	50,034	21,506	38,353	5,135	115,028

[1] See comparative figures (Note 2).

NOTE 22 Risk Management (continued)

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

December 31, 2020	Single-family residential	Multi-family residential	Equity-release	Commercial	Total
Canada	2,063	4,331	759	8,883	16,036
United States	-	2,297	-	3,660	5,957
Europe	-	684	1,261	3,801	5,746
Capital and Risk Solutions	-	41	-	23	64
	2,063	7,353	2,020	16,367	27,803

December 31, 2019	Single-family residential	Multi-family residential	Equity-release	Commercial	Total
Canada	2,069	4,496	374	7,871	14,810
United States	-	1,798	-	2,198	3,996
Europe ^[1]	-	661	940	3,787	5,388
Capital and Risk Solutions ^[1]	-	49	-	25	74
	2,069	7,004	1,314	13,881	24,268

[1] See comparative figures (Note 2).

c) Asset quality

Bond Portfolio Quality	December 31, 2020	December 31, 2019
AAA	21,820	22,083
AA	35,530	33,272
A	45,673	37,233
BBB	33,382	21,922
BB and lower	1,187	518
Total bonds	137,592	115,028

Derivative Portfolio Quality	December 31, 2020	December 31, 2019
Over-the-counter contracts (counterparty credit ratings):		
AA	424	271
A	369	146
BBB	35	34
Exchange-traded	1	-
Total	829	451

d) Loans past due, but not impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management of Lifeco has reasonable assurance of collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

	December 31, 2020	December 31, 2019
Less than 30 days	17	28
30-90 days	28	1
Greater than 90 days	10	4
Total	55	33

NOTE 22 Risk Management (continued)*e) Future asset credit losses*

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

	December 31, 2020	December 31, 2019
Participating	1,183	1,175
Non-participating	2,185	1,400
	3,368	2,575

Market risk*a) Foreign exchange risk*

If the assets backing insurance and investment contract liabilities are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases. Lifeco has net investments in foreign operations. Lifeco's debt obligations are denominated in Canadian dollars, euros and U.S. dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts Lifeco's total equity. Correspondingly, Lifeco's book value per share and capital ratios monitored by rating agencies are also impacted.

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

- Lifeco uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented investment guidelines include maximum tolerances for unhedged currency mismatch exposures.
- For assets backing liabilities not matched by currency, Lifeco normally converts the assets back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.
- A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.

b) Interest rate risk

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

- Lifeco uses a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), Lifeco generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.

NOTE 22 Risk Management (continued)

- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments or equities, as described below.
- The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and/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 0.11% in 2020 (0.10% in 2019). 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 also considers the impact of the Canadian Institute of Actuaries-prescribed scenarios:

- At December 31, 2020 and 2019, 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, 2020 and 2019, 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.

The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries-prescribed scenarios. The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually.

An immediate 1% parallel shift in the yield curve would not have a material impact on Lifeco's view of the range of interest rates to be covered by the provisions.

NOTE 22 Risk Management (continued)

If sustained however, the parallel shift could impact Lifeco's range of scenarios covered. The following table provides information on the impact to the value of liabilities net of changes in the value of assets supporting liabilities 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. For some products, interest rate risk is modelled stochastically in determining the insurance contract liabilities, and for those products, the sensitivities reflect the estimated impact of an immediate 1% increase and 1% decrease in interest rates on the liability.

The sensitivities in the table include the impact of a parallel shift in ultimate interest rates outlined in actuarial standards.

	December 31, 2020		December 31, 2019	
	1% increase	1% decrease	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	(289)	1,185	(230)	811
Increase (decrease) in net earnings	224	(920)	175	(619)

As at December 31, 2020, the accounting for the acquisition of MassMutual is not finalized pending completion of a comprehensive valuation of the net assets acquired (Note 3). As such, the impact of the acquired business included in the sensitivities above reflects Lifeco's current best estimate of the sensitivities.

c) Equity risk

Lifeco has investment policy guidelines in place that provide for prudent investment in equity markets with clearly defined limits to mitigate price risk.

The risks associated with segregated fund guarantees on lifetime Guaranteed Minimum Withdrawal Benefits have been mitigated through a hedging program using equity futures, currency forwards and interest rate derivatives.

Some insurance and investment contract liabilities with long-tail cash flows are supported by publicly traded common shares and investments in other non-fixed income assets, primarily comprised of investment properties, real estate funds, private equities, and equity-release mortgages. The value of the liabilities may fluctuate with changes in the value of the supporting assets. The liabilities for other products such as segregated fund products with guarantees also fluctuate with equity values.

There may be additional market and liability impacts as a result of changes in the value of publicly traded common shares and other non-fixed income assets that will cause the liabilities to fluctuate differently than the equity values. This means that there is a greater impact on net earnings from larger decreases in equity values, relative to the change in equity values. Decreases in equity values beyond those shown in the table below would have a greater impact on net earnings, relative to the change in equity values.

The following table provides information on the expected impacts of an immediate 10% or 20% increase or decrease in the value of publicly traded common shares on insurance and investment contract liabilities and on the net earnings. The expected impacts take into account the expected changes in the value of assets supporting liabilities and hedge assets.

	December 31, 2020				December 31, 2019			
	Increase		Decrease		Increase		Decrease	
	20%	10%	10%	20%	20%	10%	10%	20%
Change in publicly traded common share values								
Increase (decrease) in non-participating insurance and investment contract liabilities	(34)	(18)	62	264	(63)	(33)	45	223
Increase (decrease) in net earnings	28	15	(51)	(208)	54	27	(39)	(182)

NOTE 22 Risk Management (continued)

The following table provides information on the expected impacts of an immediate 5% or 10% increase or decrease in the value of other non-fixed income assets on insurance and investment contract liabilities and on the net earnings. The expected impacts take into account the expected changes in the value of assets supporting liabilities.

	December 31, 2020				December 31, 2019			
	Increase		Decrease		Increase		Decrease	
	10%	5%	5%	10%	10%	5%	5%	10%
Change in other non-fixed income asset values								
Increase (decrease) in non-participating insurance and investment contract liabilities	(41)	(8)	88	138	(74)	(32)	35	117
Increase (decrease) in net earnings	34	6	(69)	(108)	60	25	(28)	(90)

The Canadian Institute of Actuaries Standards of Practice for the valuation of insurance contract liabilities establish limits on the investment return assumptions for publicly traded common shares and other non-fixed income assets which are generally based on historical returns on market indices. The sensitivities shown in the tables above allow for the impact of changes in these limits following market decreases.

The best estimate return assumptions for publicly traded common shares and other non-fixed income assets are primarily based on long-term historical averages. The following provides information on the expected impacts of a 1% increase or a 1% decrease in the best estimate assumptions:

	December 31, 2020		December 31, 2019	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions				
Increase (decrease) in non-participating insurance contract liabilities	(691)	861	(645)	752
Increase (decrease) in net earnings	556	(682)	509	(585)

Lifeco sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of Lifeco. Lifeco hedges its exposure to the equity risk associated with its PSU Plan through the use of total return swaps.

IGM FINANCIAL

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

Liquidity risk

IGM's liquidity management practices include:

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

A key liquidity requirement for IGM is the funding of consultant network compensation paid for the distribution of financial products and services. This compensation continues to be paid from operating cash flows.

NOTE 22 Risk Management (continued)

IGM also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources and to manage any derivative collateral requirements. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS), including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program).

Certain subsidiaries of IGM are approved issuers of NHA MBS and are approved sellers into the CMB Program. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in principal reinvestment accounts.

IGM maintains committed capacity within certain Canadian bank-sponsored securitization trusts.

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

December 31, 2020	Payments due by period				Total
	Demand	Less than 1 year	1-5 years	After 5 years	
Derivative financial instruments	-	13	21	-	34
Deposits and certificates	1,099	2	3	1	1,105
Obligations to securitization entities	-	1,543	4,610	21	6,174
Future lease payments	-	28	88	131	247
Debentures	-	-	-	2,100	2,100
Pension contributions	-	14	-	-	14
Total contractual maturities	1,099	1,600	4,722	2,253	9,674

In addition to IGM's current balance of cash and cash equivalents, liquidity is available through IGM's lines of credit. IGM's lines of credit with various Schedule I Canadian chartered banks totalled \$825 million as at December 31, 2020, unchanged from December 31, 2019. The lines of credit as at December 31, 2020 consisted of committed lines of \$650 million and uncommitted lines of \$175 million. IGM has accessed its uncommitted lines of credit in the past; however, any advances made by the banks under the uncommitted lines are at the banks' sole discretion. As at December 31, 2020 and 2019, IGM was not utilizing its committed lines of credit or its uncommitted lines of credit.

IGM's liquidity position and its management of liquidity risk have not changed materially since December 31, 2019.

Credit risk

IGM's cash and cash equivalents, other investment holdings, mortgage portfolios and derivatives are subject to credit risk. IGM monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

At December 31, 2020, IGM's cash and cash equivalents of \$772 million (\$720 million in 2019) consisted of cash balances of \$77 million (\$68 million in 2019) on deposit with Canadian chartered banks and cash equivalents of \$695 million (\$652 million in 2019). IGM manages credit risk related to cash and cash equivalents by adhering to its investment policy that outlines credit risk parameters and concentration limits. IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

As at December 31, 2020, residential mortgages, recorded on IGM's balance sheet, of \$6.3 billion (\$7.2 billion in 2019) consisted of \$6.0 billion sold to securitization programs (\$6.8 billion in 2019), \$335 million held pending sale or securitization (\$345 million in 2019) and \$14 million related to IGM's intermediary operations (\$24 million in 2019).

IGM manages credit risk related to residential mortgages through:

- adhering to its lending policy and underwriting standards;
- its loan servicing capabilities;
- use of client-insured mortgage default insurance and mortgage portfolio default insurance held by IGM; and
- its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and IG Wealth Management Consultants as part of a client's IG Living Plan™.

NOTE 22 Risk Management (continued)

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

- Under the NHA MBS program totalling \$3.2 billion (\$3.9 billion in 2019), IGM is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling \$2.8 billion (\$2.9 billion in 2019) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$73 million (\$72 million in 2019) and \$46 million (\$38 million in 2019), respectively, at December 31, 2020. Cash reserve accounts are reflected on the balance sheets, whereas rights to future net interest income are not reflected on the balance sheets and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 3.0% of mortgages held in ABCP trusts insured at December 31, 2020 (4.6% in 2019).

At December 31, 2020, residential mortgages recorded on the balance sheet were 55.3% insured (59.1% in 2019). At December 31, 2020, impaired mortgages on these portfolios were \$5 million (\$2 million in 2019). Uninsured non-performing mortgages over 90 days on these portfolios were \$2 million at December 31, 2020 (\$2 million in 2019).

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

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

IGM's allowance for credit losses was \$1 million at December 31, 2020 (\$1 million in 2019), and is considered adequate by IGM's management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience; ii) recent trends, including the economic impact of COVID-19 and Canada's COVID-19 Economic Response Plan to support Canadians and businesses; iii) current portfolio credit metrics and other relevant characteristics; iv) its strong financial planning relationship with its clients; and v) stress testing of losses under adverse real estate market conditions.

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2019.

IGM is exposed to credit risk through the derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions and to hedge market risk related to certain share-based compensation arrangements. These derivatives are discussed more fully under the market risk section below.

To the extent that the fair value of the derivatives is in a gain position, IGM is exposed to the credit risk that its counterparties fail to fulfill their obligations under these arrangements.

IGM's derivative activities are managed in accordance with its investment policy, which includes counterparty limits and other parameters to manage counterparty risk. Counterparties are all Canadian Schedule I chartered banks and, as a result, management of IGM has determined that its overall credit risk related to derivatives was not significant at December 31, 2020. Management of credit risk related to derivatives has not changed materially since December 31, 2019.

Market risk*a) Foreign exchange risk*

IGM is exposed to foreign exchange risk on its investments in China AMC. Changes to the carrying value due to changes in foreign exchange rates is recognized in other comprehensive income. A 5% increase (decrease) in Canadian currency relative to foreign currencies would decrease (increase) the aggregate carrying value of foreign investment by approximately \$34 million (\$38 million in 2019).

NOTE 22 Risk Management (continued)*b) Interest rate risk*

IGM is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in IGM's mortgage banking operations.

IGM manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- IGM has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, IGM is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of \$21 million (negative \$1 million in 2019) and an outstanding notional value of \$0.7 billion at December 31, 2020 (\$0.8 billion in 2019). IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The fair value of these swaps totalled \$20 million (negative \$5 million in 2019), on an outstanding notional amount of \$1.3 billion at December 31, 2020 (\$1.6 billion in 2019). The negative net fair value of these swaps recorded on the balance sheet was \$1 million at December 31, 2020 (\$6 million in 2019) and had an outstanding notional amount of \$2.0 billion at December 31, 2020 (\$2.4 billion in 2019).
- IGM is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. IGM enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by IGM pending sale or securitization. The negative fair value of these swaps was \$1 million (positive fair value of \$1 million in 2019) on an outstanding notional amount of \$191 million at December 31, 2020 (\$180 million in 2019).

As at December 31, 2020, the impact to net earnings of a 100-basis-point increase in interest rates would have been a decrease of approximately \$1 million (\$2 million in 2019). IGM's exposure to and management of interest rate risk have not changed materially since December 31, 2019.

c) Equity risk

IGM is exposed to equity risk on its equity investments which are classified as either available for sale or fair value through profit or loss or investments in associates.

IGM sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of IGM Financial Inc. IGM hedges its exposure to this risk through the use of forward agreements and total return swaps.

Risks related to assets under management

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings of IGM.

NOTE 23 Operating and Administrative Expenses

	Years ended December 31,	
	2020	2019
Salaries and other employee benefits	4,781	4,567
General and administrative expenses	2,539	2,516
Amortization, depreciation and impairment	675	687
Premium taxes	480	506
Restructuring and other	219	65
	8,694	8,341

RESTRUCTURING AND OTHER**Lifeco***Canada Restructuring*

During the fourth quarter of 2020, Lifeco completed the sale of GLC to Mackenzie and recorded restructuring and other one-time costs of \$16 million after tax (\$22 million pre tax). Two additional initiatives impacting Lifeco's operations were announced in the fourth quarter of 2020:

- Lifeco announced changes to its Canadian distribution strategy and vision for advisor-based distribution, and
- IGM has notified Lifeco that it intends to terminate its long-term technology infrastructure-related sharing agreement in the first quarter of 2021.

These initiatives, together with the sale of GLC, will result in staff reductions, exit costs for certain facilities lease agreements and decommit activities related to technology and other assets.

As a result, Lifeco has recorded a restructuring provision of \$92 million, which includes the restructuring costs associated with the GLC disposition. The after-tax impact of the restructuring provision is \$68 million. Changes relating to these initiatives are expected to be implemented by the end of 2022 and are not expected to have a significant impact on Lifeco and the Corporation's financial results.

Great-West Life & Annuity Restructuring

Upon acquisition of MassMutual, Great-West Life & Annuity recorded restructuring expenses of \$42 million pre tax (\$33 million after tax) associated with the acquisition of the MassMutual retirement services business. These include a restructuring provision of \$37 million and integration costs of \$5 million. This restructuring is primarily attributed to the reduction of MassMutual staff not retained. In addition, expenses were incurred for the early termination of certain MassMutual vendor contracts. Lifeco expects to pay out a significant portion of these amounts during 2021. Lifeco expects to incur further restructuring and integration expenses associated with the acquisition over the following 18 months.

United Kingdom Business Transformation

In 2018, Lifeco recorded a restructuring provision in Europe in respect of activities aimed at achieving planned expense reductions and an organizational realignment. Despite delays due to COVID-19, Lifeco had achieved most of the planned benefits by December 31, 2020 and the restructuring has been substantially completed.

Putnam Restructuring

In 2019, Putnam recorded a restructuring provision of \$52 million pre tax (\$36 million after tax). This restructuring is in respect of expense reductions and a realignment of its resources to best position itself for current and future opportunities. The expense reductions will be achieved through a reduction in staff, consolidation of certain mutual funds, digital technology modernization and facilities downsizing.

IGM Financial

During 2020 IGM's incurred restructuring and other charges of \$75 million related to ongoing multi-year transformation initiatives and efforts to enhance its operational effectiveness and also to the acquisition of GLC and other changes to IGM's investment management teams. As a result of these initiatives, IGM recorded charges relating to restructuring and downsizing certain sharing activities with Lifeco as well as impairment of redundant internally generated software assets.

At December 31, 2020, the balance of restructuring provisions, including those above, amounts to \$232 million (\$109 million in 2019) and is recorded in other liabilities.

NOTE 24 Financing Charges

	Years ended December 31,	
	2020	2019
Interest on debentures and other debt instruments	484	474
Interest on lease liabilities	33	41
Interest on capital trust debentures	11	11
Other	27	18
	555	544

NOTE 25 Pension Plans and Other Post-Employment Benefits**CHARACTERISTICS, FUNDING AND RISKS**

The Corporation and its subsidiaries maintain funded defined benefit pension plans for eligible employees and advisors as well as unfunded supplementary employee retirement plans (SERP) for eligible employees. The Corporation and its subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings; however, these plans are closed to new entrants. Many of the defined benefit pension plans also no longer provide future defined benefit accruals. The Corporation and its subsidiaries' defined benefit plan exposure is expected to reduce in future years. Where defined benefit pension accruals continue, in most circumstances active plan participants share in the cost by making contributions in respect of current service. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits, in accordance with the terms of the plans, and assuming the plans are not terminated. Assets supporting the funded pension plans are held in separate trustee pension funds. Obligations for the wholly unfunded plans are supported by assets of the Corporation or its subsidiaries, as applicable.

The defined benefit plans of the Corporation and its subsidiaries are closed to new entrants. New hires are only eligible for defined contribution benefits. As a result, defined benefit plan exposure will continue to be reduced in future years.

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

The Corporation and its subsidiaries also provide unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. Lifeco's subsidiaries' plans are closed to new hires and were previously amended to limit which employees could become eligible to receive benefits. The obligations for these benefits are supported by assets of the Corporation or its subsidiaries, as applicable.

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

The Corporation and its subsidiaries have pension and benefit committees or a trustees arrangement that provides oversight for the benefit plans. The benefit plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and funding requirements. Significant changes to benefit plans of the Corporation or of its subsidiaries require approval from the respective board of directors or committee thereof.

The Corporation and its subsidiaries' funding policy for the funded pension plans require annual contributions equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. Where funded plans have a net defined benefit asset, the Corporation and its subsidiaries determine if an economic benefit exists in the form of potential reductions in future contributions, the present value of future expenses to be paid from the plan and in the form of surplus refunds, where permitted by applicable regulation and plan provisions.

By their design, the defined benefit plans expose the Corporation and its subsidiaries to the typical risks faced by defined benefit plans, such as investment performance, changes to the discount rates used to value the obligations, longevity of plan members, and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Corporation and its subsidiaries.

PLAN ASSETS, BENEFIT OBLIGATION AND FUNDED STATUS

	December 31, 2020		December 31, 2019	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	8,045	-	7,452	-
Interest income	213	-	247	-
Employee contributions	17	-	22	-
Employer contributions	210	18	223	22
Actual return on assets greater than interest income	503	-	762	-
Benefits paid	(365)	(18)	(352)	(22)
Settlement	(2)	-	(113)	-
Administrative expenses	(9)	-	(10)	-
Foreign exchange and other	123	-	(186)	-
Fair value of plan assets, end of year	8,735	-	8,045	-
Change in defined benefit obligation				
Defined benefit obligation, beginning of year	9,506	448	8,704	428
Current service cost	121	3	108	3
Employee contributions	17	-	22	-
Interest cost	257	14	290	17
Actuarial (gains) losses on:				
Financial assumption changes	744	31	1,102	32
Demographic assumption changes	(11)	2	(26)	(5)
Arising from member experience	31	(5)	11	(4)
Benefits paid	(365)	(18)	(352)	(22)
Past service cost and plan amendments	(6)	-	(1)	-
Settlement	(1)	-	(150)	-
Curtailment	(21)	-	(3)	-
Foreign exchange and other	115	(1)	(199)	(1)
Defined benefit obligation, end of year	10,387	474	9,506	448
Funded status				
Fund deficit	(1,652)	(474)	(1,461)	(448)
Unrecognized amount due to asset ceiling (see below)	(29)	-	(37)	-
Accrued benefit liability	(1,681)	(474)	(1,498)	(448)

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)

The aggregate defined benefit obligation of pension plans is as follows:

	December 31, 2020	December 31, 2019
Wholly or partly funded plans	9,604	8,792
Wholly unfunded plans	783	714

The net accrued benefit asset (liability) shown above is presented in these financial statements as follows:

	December 31, 2020			December 31, 2019		
	Defined benefit pension plans	Other post- employment benefits	Total	Defined benefit pension plans	Other post- employment benefits	Total
Pension benefit assets [Note 9]	240	-	240	231	-	231
Pension and other post-employment benefit liabilities [Note 16]	(1,921)	(474)	(2,395)	(1,729)	(448)	(2,177)
Accrued benefit liability	(1,681)	(474)	(2,155)	(1,498)	(448)	(1,946)

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

	December 31, 2020	December 31, 2019
Asset ceiling, beginning of year	37	103
Interest on beginning-of-period asset ceiling	1	4
Change in asset ceiling	(11)	(70)
Foreign exchange rate changes	2	-
Asset ceiling, end of year	29	37

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)**PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE**

	December 31, 2020		December 31, 2019	
	Pension plans	Other post-employment benefits	Pension plans	Other post-employment benefits
Defined benefit current service cost	121	3	108	3
Net interest cost	45	14	47	17
Past service cost, plan amendments, curtailments and settlements ^[1]	(26)	-	(41)	-
Administration fees	9	-	10	-
Defined contribution current service cost	152	-	124	-
Expense recognized in net earnings	301	17	248	20
Actuarial losses recognized	764	28	1,087	23
Return on assets greater than interest income	(503)	-	(762)	-
Change in asset ceiling	(11)	-	(70)	-
Expense recognized in other comprehensive income (loss)	250	28	255	23
Total expense	551	45	503	43

[1] Includes a curtailment gain of \$11 million recognized by Lifeco on sale of shares of Irish Progressive Services International Limited. In addition, the Corporation recognized a curtailment gain and a gain due to a plan amendment of \$11 million which reflect the curtailment of certain executives from the Corporation's plan as well as updated pension assumptions used for certain executives.

In 2020, the Corporation and its subsidiaries incurred \$4 million of actuarial losses (\$6 million of actuarial losses in 2019) for pension plan remeasurements not included in the table shown above. This relates to the share of actuarial gains (losses) for investments in jointly controlled corporations and associates.

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

Percentage (%)	Defined benefit pension plans	
	December 31, 2020	December 31, 2019
Equity securities	42	44
Debt securities	47	46
All other assets	11	10
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Lifeco's plan assets include investments in segregated and other funds managed by subsidiaries of Lifeco of \$6,871 million at December 31, 2020 (\$6,031 million at December 31, 2019) of which \$6,790 million (\$5,961 million at December 31, 2019) are included in the balance sheets. Plan assets do not include any property occupied or other assets used by Lifeco. IGM's plan assets are invested in IGM's mutual funds. A portion of Power Corporation and Power Financial's plan assets are invested in segregated funds managed by a subsidiary of Lifeco.

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)**DETAILS OF DEFINED BENEFIT OBLIGATION****Portion of defined benefit obligation subject to future salary increases**

	December 31, 2020		December 31, 2019	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Benefit obligation without future salary increases	9,587	474	8,752	448
Effect of assumed future salary increases	800	-	754	-
Defined benefit obligation	10,387	474	9,506	448

Allocation of defined benefit obligation by membership

	December 31, 2020		December 31, 2019	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Percentage (%)				
Actives	40	22	40	21
Deferred vesteds	18	-	17	-
Retirees	42	78	43	79
Total	100	100	100	100
Weighted average duration of defined benefit obligation (in years)	18.2	12.1	17.9	11.9

CASH FLOW INFORMATION

The expected employer contributions for the year 2021 are as follows:

	Pension plans	Other post-employment benefits
Funded (wholly or partly) defined benefit plans	146	-
Unfunded defined benefit plans	20	25
Defined contribution plans	157	-
Total	323	25

ACTUARIAL ASSUMPTIONS AND SENSITIVITIES**Actuarial assumptions**

	December 31, 2020		December 31, 2019	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Percentage (%)				
Range of discount rates				
To determine benefit cost	2.6 - 3.2	3.1 - 3.2	3.4 - 3.9	3.7 - 4.4
To determine accrued benefit obligation at year-end	2.1 - 2.7	2.4 - 2.6	2.6 - 3.2	3.1 - 3.2
Weighted average assumptions used to determine benefit cost ^[1]				
Discount rate	2.9	3.1	3.6	3.9
Rate of compensation increase	3.0	-	3.1	-
Weighted average assumptions used to determine accrued benefit obligation at year-end ^[1]				
Discount rate	2.4	2.5	2.9	3.1
Rate of compensation increase	3.0	-	3.0	-
Weighted average healthcare trend rates ^[1]				
Initial healthcare trend rate		4.8		4.7
Ultimate healthcare trend rate		4.1		4.1
Year ultimate trend rate is reached		2039		2039

[1] Weighted based on the obligations of each plan.

NOTE 25 Pension Plans and Other Post-Employment Benefits (continued)**Sample life expectancies based on mortality assumptions**

	December 31, 2020		December 31, 2019	
	Defined benefit pension plans	Other post-employment benefits	Defined benefit pension plans	Other post-employment benefits
Weighted average life expectancies based on mortality assumptions ^[1] :				
Male				
Age 65 in fiscal year	22.7	22.5	22.6	22.4
Age 65 for those age 35 in the fiscal year	24.6	24.0	24.5	23.9
Female				
Age 65 in fiscal year	24.8	24.7	24.8	24.7
Age 65 for those age 35 in the fiscal year	26.7	26.2	26.6	26.2

[1] Weighted based on the obligations of each plan.

Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty and judgment is required in establishing this assumption. The mortality assumptions applied by the Corporation and its subsidiaries take into consideration average life expectancy, including allowances for future longevity improvements as appropriate, and reflect variations in such factors as age, gender and geographic location.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practice. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

Impact of changes to assumptions on defined benefit obligation

	December 31, 2020	
	1% increase	1% decrease
Defined benefit pension plans:		
Impact of a change to the discount rate	(1,620)	2,103
Impact of a change to the rate of compensation increase	383	(344)
Impact of a change to the rate of inflation	760	(667)
Other post-employment benefits:		
Impact of a change to the discount rate	(48)	58
Impact of a change to assumed medical cost trend rates	36	(30)

To measure the impact of a change in an assumption, all other assumptions were held constant. It would be expected that there would be interaction between at least some of the assumptions and therefore the sensitivity analysis presented may not be representative of the actual change.

NOTE 26 Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Corporation and its subsidiaries are end-users of various derivative financial instruments. Contracts are either exchange traded or over-the-counter with counterparties that are credit-worthy financial intermediaries. The Corporation also has call rights to acquire additional shares of Lion at pre-determined prices (Note 7).

The following tables summarize the portfolio of derivative financial instruments of the Corporation and its subsidiaries:

December 31, 2020	Notional amount				Maximum credit risk	Total fair value
	1 year or less	1-5 years	Over 5 years	Total		
Derivatives not designated as accounting hedges						
Interest rate contracts						
Swaps	1,296	1,817	2,664	5,777	349	269
Options purchased	41	166	14	221	-	-
Futures - long	6	3	-	9	-	-
Futures - short	190	4	-	194	-	-
	1,533	1,990	2,678	6,201	349	269
Foreign exchange contracts						
Cross-currency swaps	896	3,068	11,222	15,186	388	(783)
Forward contracts	3,710	-	-	3,710	38	32
	4,606	3,068	11,222	18,896	426	(751)
Other derivative contracts						
Equity contracts	661	-	-	661	26	25
Futures - long	17	-	-	17	-	-
Futures - short	682	-	-	682	1	(4)
Options purchased	-	76	-	76	102	102
Other forward contracts	4,318	-	-	4,318	9	8
	5,678	76	-	5,754	138	131
	11,817	5,134	13,900	30,851	913	(351)
Fair value hedges						
Foreign exchange contracts						
Forward contracts	74	-	-	74	3	3
Cash flow hedges						
Interest rate contracts						
Swaps	-	40	234	274	14	11
Other derivative contracts						
Equity contracts	27	156	-	183	27	25
	27	196	234	457	41	36
Net investment hedges						
Foreign exchange contracts						
Forward contracts	786	530	-	1,316	16	15
	12,704	5,860	14,134	32,698	973	(297)

NOTE 26 Derivative Financial Instruments (continued)

December 31, 2019	Notional amount				Maximum credit risk	Total fair value
	1 year or less	1-5 years	Over 5 years	Total		
Derivatives not designated as accounting hedges						
Interest rate contracts						
Swaps	1,075	2,131	2,493	5,699	198	151
Options purchased	35	184	25	244	-	-
Futures - long	9	3	-	12	-	-
Futures - short	10	7	-	17	-	-
	1,129	2,325	2,518	5,972	198	151
Foreign exchange contracts						
Cross-currency swaps	299	2,395	10,345	13,039	209	(1,135)
Forward contracts	1,342	-	-	1,342	17	15
	1,641	2,395	10,345	14,381	226	(1,120)
Other derivative contracts						
Equity contracts	106	-	-	106	2	2
Futures - long	13	-	-	13	-	-
Futures - short	774	-	-	774	-	(2)
Other forward contracts	1,709	-	-	1,709	2	2
	2,602	-	-	2,602	4	2
	5,372	4,720	12,863	22,955	428	(967)
Fair value hedges						
Foreign exchange contracts						
Forward contracts	74	-	-	74	2	2
Cash flow hedges						
Interest rate contracts						
Forward contracts	122	-	-	122	-	(7)
Swaps	-	60	117	177	11	10
Other derivative contracts						
Equity contracts	20	51	-	71	9	9
	142	111	117	370	20	12
Net investment hedges						
Foreign exchange contracts						
Forward contracts	641	524	-	1,165	24	17
	6,229	5,355	12,980	24,564	474	(936)

The amount subject to maximum credit risk is limited to the current fair value of the instruments which are in a gain position. The maximum credit risk represents the total cost of all derivative contracts with positive values and does not reflect actual or expected losses. The total fair value represents the total amount that the Corporation and its subsidiaries would receive (or pay) to terminate all agreements at year-end. However, this would not result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

NOTE 26 Derivative Financial Instruments (continued)

The Corporation and its subsidiaries use the following derivatives:

Type	Purpose
Interest rate contracts	Interest rate swaps, forward contracts, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities and to reduce the impact of fluctuating interest rates on the mortgage banking operations, intermediary operations and debt instruments. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Corporation and its subsidiaries the right to enter into a swap with predetermined fixed rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.
Foreign exchange contracts	Cross-currency swaps are used in combination with other investments to manage foreign exchange risk associated with investment activities and insurance and investment contract liabilities. Under these swaps, principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Corporation and its subsidiaries may also enter into certain foreign exchange forward contracts to hedge certain product liabilities, cash and cash equivalents and cash flows.
Other derivative contracts	Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage the potential credit risk impact of significant declines in certain equity markets. Equity forward agreements and total return swaps are used to manage exposure to fluctuations in the total return of common shares related to deferred compensation arrangements. Forward agreements and total return swaps require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges.

The ineffective portion of the cash flow hedges during 2020, which includes interest rate contracts and foreign exchange contracts, and the anticipated net gains (losses) reclassified out of other comprehensive income within the next twelve months is not significant. The maximum time frame for which variable cash flows are hedged is 50 years.

ENFORCEABLE MASTER NETTING AGREEMENTS OR SIMILAR AGREEMENTS

The Corporation and its subsidiaries enter into the International Swaps and Derivative Association's (ISDA's) master agreements for transacting over-the-counter derivatives. The Corporation and its subsidiaries receive and pledge collateral according to the related ISDA's Credit Support Annexes. The ISDA's master agreements do not meet the criteria for offsetting on the balance sheets because they create a right of set-off that is enforceable only in the event of default, insolvency, or bankruptcy.

For exchange-traded derivatives subject to derivative clearing agreements with exchanges and clearing houses, there is no provision for set-off at default. Initial margin is excluded from the tables below as it would become part of a pooled settlement process.

NOTE 26 Derivative Financial Instruments (continued)

Lifeco's reverse repurchase agreements are also subject to right of set-off in the event of default. These transactions and agreements include master netting arrangements which provide for the netting of payment obligations between Lifeco and its counterparties in the event of default.

The following disclosure shows the potential effect on the balance sheets of financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the balance sheets.

	December 31, 2020			
	Gross amount of financial instruments presented in the balance sheet	Related amounts not set off in the balance sheet		Net exposure
		Offsetting counterparty position ^[1]	Financial collateral received / pledged ^[2]	
Financial instruments (assets)				
Derivative financial instruments	973	(631)	(154)	188
Reverse repurchase agreements ^[3]	4	-	(4)	-
	977	(631)	(158)	188
Financial instruments (liabilities)				
Derivative financial instruments	1,270	(631)	(361)	278
	1,270	(631)	(361)	278

	December 31, 2019			
	Gross amount of financial instruments presented in the balance sheet	Related amounts not set off in the balance sheet		Net exposure
		Offsetting counterparty position ^[1]	Financial collateral received / pledged ^[2]	
Financial instruments (assets)				
Derivative financial instruments	474	(324)	(107)	43
Reverse repurchase agreements ^[3]	4	-	(4)	-
	478	(324)	(111)	43
Financial instruments (liabilities)				
Derivative financial instruments	1,410	(324)	(556)	530
	1,410	(324)	(556)	530

[1] Includes counterparty amounts recognized on the balance sheets where the Corporation and its subsidiaries have a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheets, excluding collateral.

[2] Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. Financial collateral received on reverse repurchase agreements is held by a third party. At December 31, 2020, total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$211 million (\$156 million at December 31, 2019), received on reverse repurchase agreements was \$4 million (\$4 million at December 31, 2019), and pledged on derivative liabilities was \$560 million (\$634 million at December 31, 2019).

[3] Assets related to reverse repurchase agreements are included in bonds on the balance sheets.

NOTE 27 Fair Value Measurement

The following tables present the carrying amounts and fair value of the Corporation's assets and liabilities recorded or disclosed at fair value, including their levels in the fair value hierarchy using the valuation methods and assumptions described in the summary of significant accounting policies (Note 2) and below. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment. The following tables distinguish between assets and liabilities recorded at fair value on a recurring basis and those for which fair value is disclosed.

These tables exclude fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. Items excluded are: cash and cash equivalents, dividends, interest and accounts receivable, loans to policyholders, certain other financial assets, accounts payable, dividends and interest payable and certain other financial liabilities.

December 31, 2020	Carrying value	Level 1	Level 2	Level 3	Total fair value
Assets					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	102,782	-	102,709	73	102,782
Available for sale	11,897	-	11,897	-	11,897
Mortgage and other loans					
Fair value through profit or loss	2,095	-	3	2,092	2,095
Shares					
Fair value through profit or loss	10,697	8,828	194	1,675	10,697
Available for sale	1,839	1,030	70	739	1,839
Investment properties	6,270	-	-	6,270	6,270
Funds held by ceding insurers	16,188	245	15,943	-	16,188
Derivative instruments	973	1	868	104	973
Reinsurance assets	130	-	130	-	130
Other assets	980	381	541	58	980
	153,851	10,485	132,355	11,011	153,851
Assets disclosed at fair value					
Bonds					
Loans and receivables	23,348	-	26,488	57	26,545
Mortgage and other loans					
Loans and receivables	32,546	-	27,953	6,654	34,607
Shares					
Available for sale ^[1]	124	-	-	124	124
Funds held by ceding insurers	137	-	-	137	137
	56,155	-	54,441	6,972	61,413
Total	210,006	10,485	186,796	17,983	215,264
Liabilities					
Liabilities recorded at fair value					
Investment contract liabilities	9,145	-	9,145	-	9,145
Derivative instruments	1,270	5	1,242	23	1,270
Other liabilities	311	79	188	44	311
	10,726	84	10,575	67	10,726
Liabilities disclosed at fair value					
Obligations to securitization entities	6,174	-	-	6,345	6,345
Power Corporation's debentures and other debt instruments	756	-	1,013	-	1,013
Non-recourse debentures and other debt instruments	13,299	970	14,236	-	15,206
Deposits and certificates	2,246	-	2,246	-	2,246
Other liabilities	951	-	160	791	951
	23,426	970	17,655	7,136	25,761
Total	34,152	1,054	28,230	7,203	36,487

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

NOTE 27 Fair Value Measurement (continued)

December 31, 2019	Carrying value	Level 1	Level 2	Level 3	Total fair value
Assets					
Assets recorded at fair value					
Bonds					
Fair value through profit or loss	85,845	-	85,778	67	85,845
Available for sale	12,028	-	12,028	-	12,028
Mortgage and other loans					
Fair value through profit or loss	1,314	-	-	1,314	1,314
Shares					
Fair value through profit or loss	9,925	9,011	118	796	9,925
Available for sale	1,474	743	42	689	1,474
Investment properties	5,887	-	-	5,887	5,887
Funds held by ceding insurers	6,661	216	6,445	-	6,661
Derivative instruments	474	-	470	4	474
Reinsurance assets	127	-	127	-	127
Other assets	1,490	375	1,115	-	1,490
	125,225	10,345	106,123	8,757	125,225
Assets disclosed at fair value					
Bonds					
Loans and receivables	17,372	-	19,281	63	19,344
Mortgage and other loans					
Loans and receivables	30,461	-	24,177	7,243	31,420
Shares					
Available for sale ^[1]	150	-	-	150	150
Funds held by ceding insurers	80	-	-	80	80
	48,063	-	43,458	7,536	50,994
Total	173,288	10,345	149,581	16,293	176,219
Liabilities					
Liabilities recorded at fair value					
Investment contract liabilities	1,656	-	1,656	-	1,656
Derivative instruments	1,410	3	1,402	5	1,410
Other liabilities	430	43	355	32	430
	3,496	46	3,413	37	3,496
Liabilities disclosed at fair value					
Obligations to securitization entities	6,914	-	-	6,997	6,997
Power Corporation's debentures and other debt instruments	683	37	819	-	856
Non-recourse debentures and other debt instruments	9,255	496	10,099	-	10,595
Deposits and certificates	886	-	887	-	887
Other liabilities	838	-	480	358	838
	18,576	533	12,285	7,355	20,173
Total	22,072	579	15,698	7,392	23,669

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

There were no significant transfers between Level 1 and Level 2 in 2020 and 2019.

NOTE 27 Fair Value Measurement (continued)

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

Level	Definition	Financial assets and liabilities
Level 1	Utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.	- actively exchange-traded equity securities; - exchange-traded futures; - mutual and segregated funds which have available prices in an active market with no redemption restrictions; - open-end investment fund units and other liabilities in instances where there are quoted prices available from active markets.
Level 2	Utilize other-than-quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other-than-quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data.	- assets and liabilities priced using a matrix which is based on credit quality and average life; - government and agency securities; - restricted shares; - certain private bonds and investment funds; - most investment-grade and high-yield corporate bonds; - most asset-backed securities; - most over-the-counter derivatives; - most mortgage and other loans; - deposits and certificates; - most debentures and other debt instruments; - most of the investment contracts that are measured at fair value through profit or loss.
Level 3	Utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single-broker quotes, internal pricing models, external appraisers or by discounting projected cash flows.	- certain bonds; - certain asset-backed securities; - certain private equities; - certain mortgage and other loans, including equity-release mortgages; - investments in mutual and segregated funds where there are redemption restrictions; - certain over-the-counter derivatives; - investment properties; - obligations to securitization entities; - certain other debt instruments.

NOTE 27 Fair Value Measurement (continued)

The following tables present additional information about assets and liabilities measured at fair value on a recurring basis for which the Corporation and its subsidiaries have utilized Level 3 inputs to determine fair value for the years ended December 31, 2020 and 2019.

	Bonds	Mortgages and other loans	Shares		Investment properties	Derivatives, net	Other assets (liabilities)	Total
	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss ^[3]	Available for sale				
December 31, 2020								
Balance, beginning of year	67	1,314	796	689	5,887	(1)	(32)	8,720
Total gains (losses)								
In net earnings	2	156	94	52	(74)	75	4	309
In other comprehensive income ^[1]	4	15	(2)	41	21	-	-	79
Purchases	-	33	678	92	481	2	-	1,286
Issues	-	622	-	-	-	-	-	622
Sales	-	-	(214)	(127)	(73)	-	-	(414)
Settlements	-	(87)	-	-	-	5	-	(82)
Transferred from owner-occupied properties ^[2]	-	-	-	-	28	-	-	28
Transfers into Level 3	-	39	376	1	-	-	58	474
Other	-	-	(53)	(9)	-	-	(16)	(78)
Balance, end of year	73	2,092	1,675	739	6,270	81	14	10,944

[1] Amount of other comprehensive income for fair value through profit or loss bonds, mortgage and other loans and investment properties represents the unrealized gains (losses) on foreign exchange.

[2] As a result of the sale of Irish Progressive Services International Limited, a property with a fair value of \$28 million was reclassified from owner-occupied properties to investment properties. The reclassification resulted in the recognition of revaluation surplus on the transfer to investment properties of \$11 million and income tax expense of \$1 million in the statements of comprehensive income.

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

Since March 20, 2020, Canada Life has temporarily suspended contributions to and transfers into, as well as redemptions and transfers out of, its Canadian real estate investment funds as the COVID-19 virus has impacted the global property market and made it difficult to value the properties with the same degree of certainty as usual. As a result of these restrictions, Lifeco's investment in these funds with a fair value of \$357 million was transferred on March 20, 2020 from Level 1 to Level 3.

Subsequent event

On January 11, 2021, Canada Life lifted the temporary suspension on contributions to and transfers into its Canadian real estate investment funds as confidence over the valuation of the underlying properties has returned as a result of increased market activity. While the temporary suspension on redemptions and transfers out of the Canadian real estate funds remains, the funds are accepting initial redemption requests for a limited period which will be processed, subject to available liquidity, on pre-specified dates.

NOTE 27 Fair Value Measurement (continued)

December 31, 2019	Bonds	Mortgages and other loans	Shares		Investment properties	Derivatives, net	Assets (liabilities) held for sale and other assets (liabilities)	Total
	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss ^[3]	Available for sale				
Balance, beginning of year	67	813	453	768	5,247	5	(90)	7,263
Total gains (losses)								
In net earnings	4	109	64	42	37	(5)	(1)	250
In other comprehensive income ^[1]	(4)	(5)	-	(15)	(36)	-	(1)	(61)
Purchases	-	-	346	103	644	(2)	-	1,091
Issues	-	469	-	-	-	-	-	469
Sales	-	-	(67)	(59)	(5)	-	(26)	(157)
Settlements	-	(72)	-	-	-	1	45	(26)
Other ^[2]	-	-	-	(150)	-	-	41	(109)
Balance, end of year	67	1,314	796	689	5,887	(1)	(32)	8,720

[1] Amount of other comprehensive income for fair value through profit or loss bonds, mortgage and other loans and investment properties represents the unrealized gains (losses) on foreign exchange.

[2] In January 2019, the investment in Personal Capital was reclassified from available for sale to an investment in an associate (Note 7).

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

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies or the placement of redemption restrictions on investments in mutual funds and segregated funds. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual funds and segregated funds.

NOTE 27 Fair Value Measurement (continued)

The following table sets out information about significant unobservable inputs used at year-end in measuring assets 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 2.9% – 12.0%	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 3.9% – 6.8%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 3.0%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage and other loans – equity-release mortgages (fair value through profit or loss)	The valuation approach for equity-release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no-negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/entering into long-term care of the loanholders.	Discount rate	Range of 3.2% – 4.4%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
Shares	The determination of the fair value of shares requires the use of estimates such as future cash flows, discount rates, projected earnings multiples, or recent transactions.	Discount rate	Various	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

NOTE 28 Other Comprehensive Income

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans and other	Share of jointly controlled corporations and associates	
Year ended December 31, 2020						
Balance, beginning of year	361	694	1,031	(575)	(15)	1,496
Other comprehensive income (loss)	316	15	417	(137)	(4)	607
Reattribution on acquisition of non-controlling interest in Power Financial [Note 20]	53	324	535	(257)	(8)	647
Reattribution on changes in ownership on Parjointco's interest in Pargesa [Note 7]	-	-	1	-	(1)	-
Balance, end of year	730	1,033	1,984	(969)	(28)	2,750

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans and other	Share of jointly controlled corporations and associates	
Year ended December 31, 2019						
Balance, beginning of year	201	1,015	763	(488)	(11)	1,480
Other comprehensive income (loss)	160	(293)	284	(98)	(4)	49
Other	-	(28)	(16)	11	-	(33)
Balance, end of year	361	694	1,031	(575)	(15)	1,496

NOTE 29 Earnings Per Share

The following is a reconciliation of the numerators and the denominators used in the computations of earnings per share:

	Years ended December 31,	
	2020	2019
Earnings		
Net earnings attributable to shareholders	2,046	1,160
Dividends on non-participating shares	(52)	(52)
Net earnings attributable to participating shareholders	1,994	1,108
Dilutive effect of subsidiaries' outstanding stock options	-	-
Net earnings adjusted for dilutive effect	1,994	1,108
Number of participating shares [millions]		
Weighted average number of participating shares outstanding - Basic	647.5	437.5
Potential exercise of outstanding stock options	0.1	0.4
Weighted average number of participating shares outstanding - Diluted	647.6	437.9
Net earnings per participating share		
Basic	3.08	2.53
Diluted	3.08	2.53

For 2020, 30 million stock options (9.2 million in 2019) have been excluded from the computation of diluted earnings per share as they were anti-dilutive.

NOTE 30 Related Parties**TRANSACTIONS WITH RELATED PARTIES**

In the normal course of business, Power Corporation and its subsidiaries enter into various transactions: subsidiaries provide insurance benefits, sub-advisory services, distribution of insurance products and/or other administrative services to other subsidiaries of the group and to the Corporation; loans to employees; as well as capital commitments to investment funds, performance fees and base management fees paid to subsidiaries of the group. In all cases, these transactions are in the normal course of operations and have been recorded at fair value. Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of other transactions between the Corporation and related parties are disclosed below.

On February 13, 2020, Power Corporation and Power Financial successfully completed the Reorganization pursuant to which each common share of Power Financial held by holders other than Power Corporation and its wholly owned subsidiary was exchanged for 1.05 Subordinate Voting Shares of Power Corporation and \$0.01 in cash. As a result, Power Corporation acquired 238,693,580 Power Financial Common Shares and now holds 100% of the issued and outstanding Common Shares of Power Financial, which were delisted from the Toronto Stock Exchange. In connection with the Reorganization, Pansolo Holding Inc., a corporation controlled by the Desmarais Family Residuary Trust, purchased 6 million participating preferred shares on February 12, 2020. (Notes 2, 18 and 20).

In 2020, IGM sold residential mortgage loans to Canada Life for \$21 million (\$11 million in 2019).

In 2020, Lifeco completed the sale of GLC to Mackenzie and Great-West Life & Annuity completed the acquisition of 100% of the equity of Personal Capital. Prior to the completion of the acquisition, IGM held a 24.8% interest in Personal Capital (approximately 21.7% after giving effect to dilution). The transaction resulted from an auction process conducted by Personal Capital and shareholders other than IGM (Note 3). In addition, Lifeco and Mackenzie jointly acquired a non-controlling interest in Northleaf, a premier global private equity, private credit and infrastructure fund manager (Note 7).

After obtaining advanced tax rulings in October 2017, IGM and Power Corporation agreed to tax loss consolidation transactions, whereby shares of a subsidiary that has generated tax losses may be acquired by IGM in each year up to and including 2020. The Corporation recognized the benefit of the tax losses to be realized throughout this program. On each December 31 of 2020 and 2019, IGM acquired shares of such loss companies. The benefits from these tax loss consolidation arrangements ended December 31, 2020.

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Corporation, Power Financial and Lifeco and its subsidiaries.

KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The persons included in the key management personnel are the members of the Board of Directors of the Corporation, as well as certain management executives of the Corporation and its subsidiaries.

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

	Years ended December 31,	
	2020	2019
Compensation and employee benefits	27	31
Post-employment benefits	10	5
Share-based payments	14	26
	51	62

NOTE 31 Contingent Liabilities

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions. Provisions are established if, in management of the Corporation and of its subsidiaries' judgment, it is probable a payment will be required and the amount can be reliably estimated. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation. Actual results could differ from the best estimates of the Corporation's and its subsidiaries' management.

LIFECO

Subsidiaries of Lifeco in the United States are defendants in legal actions relating to the costs and features of certain of their retirement or fund products. Management of Lifeco believes the claims are without merit and will be vigorously defending these actions. Based on the information presently known Lifeco's management believes these actions will not have a material adverse effect on Lifeco's consolidated financial position.

IGM FINANCIAL

In December 2018, a proposed class action was filed in the Ontario Superior Court against Mackenzie Financial Corporation, a subsidiary of IGM, which alleges that Mackenzie should not have paid mutual fund trailing commissions to order-execution-only dealers. Although it is difficult to predict the outcome of any such legal action, based on current knowledge of IGM's management and their consultation with their legal counsel, they do not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on IGM's consolidated financial position.

NOTE 32 Commitments and Guarantees**GUARANTEES**

In the normal course of operations, the Corporation and its subsidiaries execute agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions and performance contract obligations. The Corporation and its subsidiaries have also agreed to indemnify their directors and certain of their officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation and its subsidiaries could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made any payments under such indemnification agreements. No provisions have been recognized related to these agreements.

LETTERS OF CREDIT

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities at Lifeco is US\$2.1 billion, of which US\$1.8 billion were issued as of December 31, 2020.

The Capital and Risk Solutions activities also periodically use letters of credit as collateral under certain reinsurance contracts for on-balance-sheet policy liabilities.

Potentia has issued letters of credit totalling \$121 million with one-year terms to support required lender reserves, performance guarantees for operating solar assets and awarded wind power purchase agreements, as well as commitments for projects under construction.

Potentia has pledged \$53 million of its assets in connection with a credit facility and Power Energy guaranteed \$61 million in letters of credit issued under the same credit facility in relation to projects under construction.

INVESTMENT COMMITMENTS

With respect to Lifeco, commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines and that are to be disbursed upon fulfilment of certain contract conditions were \$1,990 million as at December 31, 2020, with \$1,874 million maturing within one year, \$95 million maturing within two years and \$21 million maturing within three years.

The Corporation and other subsidiaries have outstanding commitments of \$627 million representing future capital contributions to investment funds and other investments. Subsequent to year-end, the Corporation committed to invest US\$50 million in an investment fund.

PLEDGING OF ASSETS FOR REINSURANCE AGREEMENTS

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

- (i) The amount of assets included in the Corporation's balance sheet which have a security interest by way of pledging is \$1,421 million (\$1,456 million at December 31, 2019) in respect of reinsurance agreements.

In addition, under certain reinsurance contracts, bonds presented in portfolio investments are held in trust and escrow accounts. Assets are placed in these accounts pursuant to the requirements of certain legal and contractual obligations to support contract liabilities assumed.

- (ii) Lifeco has pledged, in the normal course of business, \$75 million (\$75 million at December 31, 2019) of its assets for the purpose of providing collateral for the counterparty.

ENERGY SALES CONTRACTS

Potentia has entered into various power purchase agreements (PPA) to sell substantially all electricity produced from its solar and wind projects to credit-rated counterparties. The contract rates are fixed for a period of 20 to 25 years.

In 2018, Potentia signed a 25-year PPA for 200MW of wind electricity with Saskatchewan Power Corporation and three 20-year PPAs for 307MW of wind electricity in Alberta. Contracts will be effective when the wind farms are commissioned. Commercial operations are expected to commence as early as 2021.

Potentia has entered into construction and turbine purchase contracts related to the Saskatchewan and Alberta wind projects under development of \$149 million.

Power Energy has issued certain indemnification and guarantees in relation to projects in operations. These guarantees are non-recourse to the Corporation.

NOTE 33 Segmented Information

The Corporation's reportable segments are Lifeco, IGM Financial and GBL, which represents the Corporation's investments in publicly traded operating companies. These reportable segments, in addition to the corporate and asset management activities, reflect Power Corporation's management structure and internal financial reporting. The Corporation evaluates the performance based on the operating segment's contribution to earnings. The following provides a brief description of the three reportable operating segments:

- **Lifeco** is a financial services holding company with interests in life insurance, health insurance, retirement and investment management services, asset management and reinsurance businesses primarily in Canada, the United States and Europe.
- **IGM Financial** is a leading wealth and asset management company supporting financial advisors and the clients they serve in Canada, and institutional investors through North America, Europe and Asia.
- **GBL** is indirectly held through Parjointco. GBL is a Belgian holding company focused on long-term and sustainable value creation. GBL relies on a stable and supportive family shareholder base. Its portfolio is comprised of global industrial and services companies, leaders in their markets, in which GBL plays its role of professional shareholder.

Alternative asset investment platforms and other are comprised of the results of:

- Alternative asset management businesses; Power Sustainable and Sagard Holdings;
- Entities managed by the alternative assets managers which are required to be consolidated under IFRS; and
- Standalone businesses representing a subsidiary, a jointly controlled corporation and associates which are managed to realize value over time.

Corporate activities comprise management of the corporate activities of the Corporation and Power Financial; including the cash and non-participating shares, which fund a portion of the capital invested in other operations.

Effect of consolidation includes the consolidation elimination entries.

Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets.

The contribution to earnings of each segment includes the share of net earnings resulting from the investments that Lifeco and IGM have in each other as well as certain adjustments which are made on consolidation.

NOTE 33 Segmented Information (continued)**CONSOLIDATED NET EARNINGS**

For the year ended December 31, 2020	Lifeco	IGM ^[1]	GBL	Alternative asset investment platforms and other	Corporate	Effect of consolidation	Total
Revenues							
Total net premiums	43,019	-	-	-	-	(20)	42,999
Net investment income	11,662	190	-	574	19	(299)	12,146
Fee income ^[2]	5,902	3,084	-	101	-	(145)	8,942
Other revenues	-	-	-	529	-	-	529
Total revenues	60,583	3,274	-	1,204	19	(464)	64,616
Expenses							
Total paid or credited to policyholders	48,487	-	-	-	-	-	48,487
Commissions	2,396	1,088	-	-	-	(45)	3,439
Operating and administrative expenses	6,344	1,148	-	1,111	175	(84)	8,694
Financing charges	284	111	-	86	55	19	555
Total expenses	57,511	2,347	-	1,197	230	(110)	61,175
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,072	927	-	7	(211)	(354)	3,441
Share of earnings of investments in jointly controlled corporations and associates	-	38	27	25	43	37	170
Earnings before income taxes	3,072	965	27	32	(168)	(317)	3,611
Income taxes	(82)	201	-	(14)	(52)	24	77
Net earnings	3,154	764	27	46	(116)	(341)	3,534
Attributable to							
Non-controlling interests	1,362	360	33	(59)	133	(341)	1,488
Non-participating shareholders	-	-	-	-	52	-	52
Participating shareholders ^[3]	1,792	404	(6)	105	(301)	-	1,994
	3,154	764	27	46	(116)	(341)	3,534

[1] Results reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Effect of consolidation".

[2] Dealer compensation expenses at IGM are included in commission expenses.

[3] The contribution from Lifeco, IGM, GBL and alternative asset investment platforms and other to net earnings attributable to participating shareholders of the Corporation includes the effect of consolidation.

NOTE 33 Segmented Information (continued)**TOTAL ASSETS AND LIABILITIES**

December 31, 2020	Lifeco	IGM ^[2]	GBL	Alternative asset investment platforms and other	Corporate	Effect of consolidation	Total
Cash and cash equivalents	7,946	772	-	640	682	-	10,040
Investments	190,579	6,381	-	2,440	791	(206)	199,985
Investments in jointly controlled corporations and associates	65	971	4,216	562	715	-	6,529
Other assets	53,065	2,271	-	2,873	280	(213)	58,276
Goodwill and intangible assets	14,821	4,126	-	1,293	2	-	20,242
Investments on account of segregated fund policyholders	334,032	-	-	-	-	-	334,032
Total assets^[1]	600,508	14,521	4,216	7,808	2,470	(419)	629,104
Insurance and investment contract liabilities	218,047	-	-	-	-	-	218,047
Obligation to securitization entities	-	6,174	-	-	-	-	6,174
Power Corporation's debentures and other debt instruments	-	-	-	-	756	-	756
Non-recourse debentures and other debt instruments	9,693	2,100	-	1,344	250	(88)	13,299
Other liabilities	11,706	2,685	-	2,709	1,067	(104)	18,063
Insurance and investment contracts on account of segregated fund policyholders	334,032	-	-	-	-	-	334,032
Total liabilities	573,478	10,959	-	4,053	2,073	(192)	590,371

[1] Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

[2] Assets reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Effect of consolidation".

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2020	Canada	United States	Europe	Total
Investments and cash and cash equivalents	97,325	55,162	57,538	210,025
Investments in jointly controlled corporations and associates	1,881	295	4,353	6,529
Other assets	8,297	30,790	19,189	58,276
Goodwill and intangible assets	11,272	5,846	3,124	20,242
Investments on account of segregated fund policyholders	90,680	117,982	125,370	334,032
Total assets	209,455	210,075	209,574	629,104
Total revenues	24,160	28,289	12,167	64,616

CONDENSED STATEMENTS OF CASH FLOWS

December 31, 2020	Lifeco	IGM	Alternative asset investment platforms and other	Corporate	Effect of consolidation	Total
Operating activities	9,610	737	(13)	1,299	(1,532)	10,101
Financing activities	2,010	(1,358)	1,117	(1,270)	1,139	1,638
Investing activities	(8,202)	673	(849)	(195)	158	(8,415)
Effect of changes in exchange rates on cash and cash equivalents	(100)	-	11	-	-	(89)
Increase (decrease) in cash and cash equivalents	3,318	52	266	(166)	(235)	3,235
Cash and cash equivalents, beginning of the year	4,628	720	374	1,392	(309)	6,805
Cash and cash equivalents, end of year	7,946	772	640	1,226	(544)	10,040

NOTE 33 Segmented Information (continued)**CONSOLIDATED NET EARNINGS**

For the year ended December 31, 2019	Lifeco ^[1]	IGM ^[2]	GBL	Alternative asset investment platforms and other	Corporate	Effect of consolidation	Total
Revenues							
Total net premiums	24,510	-	-	-	-	(21)	24,489
Net investment income	13,107	169	-	163	51	(48)	13,442
Fee income	7,081	3,051	-	44	-	(95)	10,081
Other revenues	-	-	-	829	-	-	829
Total revenues	44,698	3,220	-	1,036	51	(164)	48,841
Expenses							
Total paid or credited to policyholders	33,091	-	-	-	-	-	33,091
Commissions	2,429	1,101	-	-	-	(50)	3,480
Operating and administrative expenses	6,013	1,055	-	1,120	210	(57)	8,341
Financing charges	285	108	-	74	55	22	544
Total expenses	41,818	2,264	-	1,194	265	(85)	45,456
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,880	956	-	(158)	(214)	(79)	3,385
Share of earnings of investments in jointly controlled corporations and associates	-	13	193	(23)	29	-	212
Earnings before income taxes	2,880	969	193	(181)	(185)	(79)	3,597
Income taxes	373	220	-	(10)	(41)	12	554
Net earnings	2,507	749	193	(171)	(144)	(91)	3,043
Attributable to							
Non-controlling interests	1,489	458	68	(99)	58	(91)	1,883
Non-participating shareholders	-	-	-	-	52	-	52
Participating shareholders ^[3]	1,018	291	125	(72)	(254)	-	1,108
	2,507	749	193	(171)	(144)	(91)	3,043

[1] Includes the loss on the reinsurance transaction with Protective Life of \$247 million (\$199 million after tax) and the impact of the \$199 million decrease in the deferred income tax asset.

[2] Results reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Effect of consolidation".

[3] The contribution from Lifeco, IGM, GBL and alternative asset investment platforms and other to net earnings attributable to participating shareholders of the Corporation includes the effect of consolidation.

NOTE 33 Segmented Information (continued)**TOTAL ASSETS AND LIABILITIES**

December 31, 2019	Lifeco	IGM ^[2]	GBL	Alternative asset investment platforms and other	Corporate	Effect of consolidation	Total
Cash and cash equivalents	4,628	720	-	375	1,082	-	6,805
Investments	163,702	7,264	-	1,713	559	(181)	173,057
Investments in jointly controlled corporations and associates	53	857	3,954	361	668	-	5,893
Other assets	40,974	1,472	-	1,583	350	(73)	44,306
Goodwill and intangible assets	10,844	4,067	-	1,255	1	-	16,167
Investments on account of segregated fund policyholders	231,022	-	-	-	-	-	231,022
Total assets^[1]	451,223	14,380	3,954	5,287	2,660	(254)	477,250
Insurance and investment contract liabilities	176,177	-	-	-	-	-	176,177
Obligation to securitization entities	-	6,914	-	-	-	-	6,914
Power Corporation's debentures and other debt instruments	-	-	-	-	683	-	683
Non-recourse debentures and other debt instruments	5,993	2,100	-	1,013	250	(101)	9,255
Other liabilities	12,432	1,872	-	1,361	1,024	(75)	16,614
Insurance and investment contracts on account of segregated fund policyholders	231,022	-	-	-	-	-	231,022
Total liabilities	425,624	10,886	-	2,374	1,957	(176)	440,665

[1] Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

[2] Assets reported by IGM include an adjustment for IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Effect of consolidation".

TOTAL ASSETS AND TOTAL REVENUES BY GEOGRAPHIC LOCATION

December 31, 2019	Canada	United States	Europe	Total
Investments and cash and cash equivalents	90,917	33,072	55,873	179,862
Investments in jointly controlled corporations and associates	1,420	471	4,002	5,893
Other assets	6,746	19,911	17,649	44,306
Goodwill and intangible assets	11,049	2,183	2,935	16,167
Investments on account of segregated fund policyholders	85,612	31,433	113,977	231,022
Total assets	195,744	87,070	194,436	477,250
Total revenues	24,601	(2,042)	26,282	48,841

CONDENSED STATEMENTS OF CASH FLOWS

December 31, 2019	Lifeco	IGM	Alternative asset investment platforms and other	Corporate	Effect of consolidation	Total
Operating activities	6,110	712	(30)	1,317	(1,488)	6,621
Financing activities	(3,981)	(1,069)	561	(2,873)	2,731	(4,631)
Investing activities	(1,539)	427	(807)	1,519	(1,078)	(1,478)
Effect of changes in exchange rates on cash and cash equivalents	(130)	-	(18)	-	-	(148)
Increase (decrease) in cash and cash equivalents	460	70	(294)	(37)	165	364
Cash and cash equivalents, beginning of the year	4,168	650	668	1,429	(474)	6,441
Cash and cash equivalents, end of year	4,628	720	374	1,392	(309)	6,805

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Power Corporation of Canada

Opinion

We have audited the consolidated financial statements of Power Corporation of Canada (the "Corporation"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Insurance Contract Liabilities – Refer to Notes 2 and 12 to the financial statements

Key Audit Matter Description

Great-West Lifeco Inc., a publicly traded operating subsidiary of the Corporation (thereafter, "Lifeco"), has insurance contract liabilities representing a significant portion of the Corporation's total liabilities. Insurance contract liabilities are determined in accordance with generally accepted actuarial practices established by the Canadian Institute of Actuaries using the Canadian Asset Liability Method ("CALM"). This method requires the use of complex valuation models incorporating projections of cash inflows and outflows using the best estimate of future experience together with a margin for adverse deviation.

While there are many assumptions which management of Lifeco makes, the assumptions with the greatest estimation uncertainty are those related to mortality, including the impact, if any, of the COVID-19 pandemic, and policyholder behaviour and mortality. These assumptions required significant auditor attention in specific circumstances where (i) there is limited Company and industry experience data, and (ii) the historical experience may not be a good indicator of the future. Auditing of certain valuation models, mortality and policyholder behaviour assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve actuarial specialists.

How the Key Audit Matter was Addressed in the Audit

Our audit procedures related to certain valuation models, mortality and policyholder behaviour assumptions included the following, among others:

- With the assistance of actuarial specialists, tested the appropriateness of certain valuation models used in the estimation process by:
 - Calculating an independent estimate of the insurance contract liability for a sample of insurance policies and comparing the results to Lifeco's estimate.
 - Testing the accuracy of certain valuation models for changes in key assumptions.

INDEPENDENT AUDITOR'S REPORT (continued)

- With the assistance of actuarial specialists, tested the reasonableness of mortality and policyholder behaviour assumptions, by:
 - Evaluating whether management of Lifeco's assumptions were determined in accordance with actuarial principles and practices under the Canadian actuarial standards of practice.
 - Testing experience studies and other inputs used in the determination of mortality and policyholder behaviour assumptions.
 - Analyzing management of Lifeco's interpretation and judgment of its experience study results and emerging claims experience, evaluating triggers and drivers for revisions of assumptions, and considering industry and other external sources of benchmarking where applicable.

Taxes – Valuation of Deferred Tax Assets – Refer to Notes 2 and 17 to the financial statements***Key Audit Matter Description***

The Corporation and its subsidiaries recognize deferred income taxes for the tax expected to be payable or recoverable on differences arising between the financial statement and tax bases of assets and liabilities, and is recorded at enacted or substantively enacted tax rates in effect for the years in which the differences are expected to settle.

One of Lifeco's subsidiaries has had a history of losses and has a deferred income tax asset comprised principally of net operating losses and judgment is applied in assessing the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections. Lifeco has concluded that through the use of certain tax planning opportunities, it is probable that sufficient taxable income will be generated to utilize certain of the unused losses.

The determination of the recoverability of deferred tax assets in Lifeco's subsidiaries required management of Lifeco to make judgements related to the assessment of management's planned implementation of tax strategies. In addition, management of Lifeco makes significant estimates and assumptions in projecting future taxable income, specifically the revenue growth rates and projected expense margins in the determination of whether the deferred tax asset will be realized. Auditing these judgements required a high degree of auditor judgment as the estimations made by management of Lifeco contain significant measurement uncertainty. This resulted in an increased extent of audit effort, including the need to involve income tax and other specialists.

How the Key Audit Matter was Addressed in the Audit

Our audit procedures related to the tax strategies, revenue growth rates and projected expense margins, and the determination of whether the deferred tax assets in Lifeco's subsidiaries will be realized included the following, among others:

- With the assistance of income tax specialists, analyzed the reasonableness of Lifeco management's projected future taxable income available to determine whether the models properly factor in the impact of the tax planning strategies.
- Tested the reasonableness of the revenue growth rates and projected expense margins used to project future taxable income available to realize the deferred tax asset by:
 - Assessing the key factors influencing management of Lifeco's revenue growth rates and projected expense margins used in the projections through both market and internally entity specific driven evidence.
 - Performing a retrospective analysis of projected future taxable income against actual results from prior years.
- With the assistance of income tax and other specialists, evaluated the proposed tax planning strategies considered in the recoverability analysis to assess whether the deferred tax asset will be realized.

Massachusetts Mutual Life Insurance Acquisition - Insurance Contract Liabilities – Refer to Notes 2 and 3 to the financial statements***Key Audit Matter Description***

A subsidiary of Lifeco purchased the retirement services business of Massachusetts Mutual Life Insurance Company ("MassMutual") via indemnity reinsurance and recognized an estimate of the initial fair value of net assets acquired, including insurance contract liabilities. The estimate of the assumed insurance contract liabilities required the use of complex valuation models incorporating projections of cash inflows and outflows using the best estimate of future experience together with a margin for adverse deviation.

INDEPENDENT AUDITOR'S REPORT (continued)

While there were a number of estimates and assumptions required to determine the initial fair value of the insurance contract liabilities, the assumptions with the greatest estimation uncertainty are those related to the policyholder behaviour assumptions. Auditing of the valuation models and policyholder behaviour assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve actuarial specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related the valuation models and policyholder behaviour assumptions as it relates to the acquired insurance contract liabilities included the following, among others:

- With the assistance of actuarial specialists, tested the appropriateness of the valuation models used in the estimation process by calculating an independent estimate of the insurance contract liability for a sample of insurance policies and comparing the results to Lifeco's estimate.
- With the assistance of actuarial specialists, tested the reasonableness of policyholder behaviour assumptions, by:
 - Evaluating whether management of Lifeco's assumptions were determined in accordance with actuarial principles and practices.
 - Analyzing management of Lifeco's interpretation and judgments based on the relative inputs, considering reasonable possible alternative assumptions, and considering industry and other external sources of benchmarking where applicable.
 - Testing the inputs used in the determination of the policyholder behaviour assumptions, including an assessment of the use of experience studies and other data from Lifeco's comparable lines of business in the determination of the MassMutual assumptions.

Personal Capital Corporation Acquisition - Intangible Assets – Refer to Notes 2 and 3 to the financial statements

Key Audit Matter Description

A subsidiary of Lifeco acquired 100% of the equity of Personal Capital Corporation ("Personal Capital") and recognized the assets acquired and the liabilities assumed based on the estimated fair value, including customer relationships and brand intangible assets. The transaction includes a contingent consideration earn-out which is based on the achievement of growth in assets under management ("AUM"). The determination of the fair value of the customer relationships and brand is based on a discounted cash flow model and required management of Lifeco to make significant estimates and assumptions related to forecasted future revenue and earnings before interest tax depreciation and amortization ("EBITDA") margins, and discount rates.

While there are several estimates and assumptions that are required to determine the fair value of the contingent consideration earn-out and the customer relationships and brand, the estimates and assumptions with the highest degree of subjectivity are forecasted future revenue and EBITDA margins, forecasted growth in AUM and discount rates. This required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to forecasted future revenue and EBITDA margins, forecasted growth in AUM, and discount rates used to determine the fair value of the contingent consideration and of the customer relationships and brand intangible assets included the following, among others:

- Evaluated the reasonableness of forecasted revenue and EBITDA margins, and forecasted growth in AUM by comparing the forecasts to:
 - Actual historical results of the acquired entity.
 - Actual results of the acquired entity after acquisition.
 - Underlying analyses detailing business strategies and growth plans.

INDEPENDENT AUDITOR'S REPORT (continued)

- Evaluated the reasonableness of forecasted future revenue and forecasted growth in AUM based on reputable third-party reports, comparable company performance, internal and external customer data, and comparing those to the estimates used by management of Lifeco.
- With the assistance of fair value specialists, evaluated the reasonableness of the discount rates used by testing the source information underlying the determination of the discount rates and developing a range of independent estimates and comparing those to the discount rate selected by management of Lifeco.

Goodwill – IGM Asset Management cash generating unit ("CGU") – Refer to Notes 2 and 10 to the financial statements*Key Audit Matter Description*

The Corporation's evaluation of goodwill for impairment involves the comparison of the recoverable amount of each CGU to its carrying value. A significant portion of the Corporation's goodwill has been allocated to the IGM Asset Management CGU. The recoverable amount of the IGM Asset Management CGU is based on fair value less costs of disposal, which is determined using both a market approach based on valuation multiples and precedent transactions and an income approach based on a discounted cash flow analysis. In determining the recoverable amount of the IGM Asset Management CGU, management made significant estimates and assumptions related to market multiples, changes in future assets under management ("AUM") resulting from net sales and investment returns, pricing levels, and discount rates. The recoverable amount of the IGM Asset Management CGU exceeded its carrying value as of the measurement date and no impairment was recognized.

While there are several estimates and assumptions that are required to determine the recoverable amount of the IGM Asset Management CGU, the estimates and assumptions with the highest degree of subjectivity are the market multiples used in the market approach and the future changes in AUM resulting from net sales and investment returns, pricing levels, and discount rates used in the income approach. This required significant auditor attention as these estimates are subject to estimation uncertainty and the impact to the assumptions from the COVID-19 pandemic. Auditing these estimates and assumptions required a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures which resulted in an increased extent of audit effort and the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to market multiples, future changes in assets under management resulting from net sales and investment returns, pricing levels, and discount rates used to determine the recoverable amount of IGM Asset Management CGU included the following, among others:

- With the assistance of fair value specialists, evaluated the market multiples by analyzing precedent market transactions and comparable public company multiples and developing a range of independent market multiples and comparing to those selected by management.
- Evaluated management ability to accurately forecast future changes in AUM resulting from net sales and investment returns, and pricing levels by comparing actual results to historical forecasts.
- Evaluated the reasonableness of forecasted changes in AUM resulting from net sales and investment returns, pricing levels rates by comparing the forecasts to:
 - Historical performance of AUM;
 - Historical net sales, investment returns, and pricing levels;
 - Known changes to Mackenzie's operations and its industry, including the impact of the COVID-19 pandemic to future operating performance; and
 - Forecasted information included in press releases, analyst and industry reports.
- With the assistance of fair value specialists, evaluated the discount rates by testing the source information underlying the determination of the discount rates and developing a range of independent discount rates and comparing to those selected by management.

INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis, and
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Benoit B. Patry.

Signed,
Deloitte LLP¹

¹ CPA auditor, CA, public accountancy permit No. A110092

March 17, 2021

Montréal, Québec

FIVE-YEAR FINANCIAL SUMMARY

December 31, [in millions of Canadian dollars, except per share amounts] (unaudited)	2020	2019	2018	2017	2016
Consolidated Balance Sheets					
Cash and cash equivalents	10,040	6,805	6,441	5,903	5,182
Total assets	629,104	477,250	452,303	445,521	422,724
Shareholders' equity	22,207	14,174	15,118	14,615	13,864
Consolidated Statements of Earnings					
Revenues					
Total net premiums	42,999	24,489	35,440	33,880	31,125
Net investment income	12,146	13,442	3,069	8,074	10,335
Fee income	8,942	10,081	8,776	8,510	7,794
Other revenues	529	829	813	898	1,496
Total revenues	64,616	48,841	48,098	51,362	50,750
Expenses					
Total paid or credited to policyholders	48,487	33,091	32,068	35,643	34,675
Commissions	3,439	3,480	3,512	3,712	3,590
Operating and administrative expenses	8,694	8,341	8,175	8,132	8,023
Financing charges	555	544	462	512	490
Total expenses	61,175	45,456	44,217	47,999	46,778
Earnings before investments in jointly controlled corporations and associates, and income taxes	3,441	3,385	3,881	3,363	3,972
Share of earnings (losses) of investments in jointly controlled corporations and associates	170	212	164	214	(122)
Earnings before income taxes	3,611	3,597	4,045	3,577	3,850
Income taxes	77	554	578	543	587
Net earnings	3,534	3,043	3,467	3,034	3,263
Attributable to					
Non-controlling interests	1,488	1,883	2,128	1,696	2,129
Non-participating shareholders	52	52	52	52	52
Participating shareholders	1,994	1,108	1,287	1,286	1,082
	3,534	3,043	3,467	3,034	3,263
Per share					
Net earnings attributable to participating shareholders	3.08	2.53	2.77	2.77	2.33
Adjusted net earnings attributable to participating shareholders ^[1]	3.00	2.92	2.46	3.36	2.64
Dividends declared on participating shares	1.79	2.00	1.50	1.41	1.32
Book value per participating share	31.38	30.98	30.38	29.40	27.84
Market price (Participating shares)					
High	34.66	34.42	32.56	33.68	31.03
Low	17.62	24.47	23.57	28.65	26.77
Year-end	29.23	33.45	24.53	32.37	30.05

[1] In the first quarter of 2020, the Corporation modified the definition of adjustments and adjusted net earnings. Refer to the section "Non-IFRS Financial Measures and Presentation" in the Corporation's annual 2020 MD&A for more information. The comparative amounts for 2017 and 2016 have not been adjusted to reflect this change.

QUARTERLY FINANCIAL INFORMATION

[in millions of Canadian dollars, except per share amounts] (unaudited)				
	Fourth quarter	Third quarter	Second quarter	First quarter
2020				
Total revenues	17,954	14,682	20,631	11,349
Net earnings	979	898	1,107	550
Net earnings attributable to participating shareholders	623	505	666	200
Earnings per share attributable to participating shareholders				
– Basic	0.92	0.75	0.99	0.36
– Diluted	0.92	0.75	0.99	0.36
2019				
Total revenues	11,729	15,422	3,824	17,866
Net earnings	570	971	710	792
Net earnings attributable to participating shareholders	179	359	278	292
Earnings per share attributable to participating shareholders				
– Basic	0.42	0.84	0.64	0.63
– Diluted	0.42	0.84	0.64	0.63

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Great-West Lifeco Inc.

PART B

Management's Discussion and Analysis

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Financial Statements and Notes

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Please note that the bottom of each page in Part B contains two different page numbers. A page number with the prefix "B" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by Great-West Lifeco Inc.

The attached documents concerning Great-West Lifeco Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Cautionary Note Regarding Forward-Looking Information. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, financial performance and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three and twelve months ended December 31, 2020 and includes a comparison to the corresponding periods in 2019, to the three months ended September 30, 2020, and to the Company's financial condition as at December 31, 2019. This MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's four major reportable segments: Canada, United States (U.S.), Europe and Capital and Risk Solutions. Effective January 1, 2020, as a result of strategic operational changes, the Company has divided the previously reported Europe segment into two separate reporting segments – Europe and Capital and Risk Solutions.

BUSINESSES OF LIFECO

Lifeco has operations in Canada, the United States and Europe through The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A), Putnam Investments, LLC (Putnam) and Irish Life Group Limited (Irish Life).

On January 1, 2020, The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life) and Canada Life and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc. amalgamated into a single life insurance company, The Canada Life Assurance Company.

In Canada, Canada Life offers a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations through two primary business units: Individual Customer and Group Customer. Through the Individual Customer business unit, the Company provides life, disability and critical illness insurance products as well as wealth savings and income products and services to individual customers. Through the Group Customer business unit, the Company provides life, accidental death and dismemberment, critical illness, disability, health and dental protection, creditor insurance as well as retirement savings and annuity products and other specialty products to group customers in Canada. The products are distributed through a multi-channel network of brokers, advisors, managing general agencies and financial institutions including Freedom 55 Financial™ and Wealth and Insurance Solutions Enterprise.

In the U.S., Empower Retirement is a leading provider of employer-sponsored retirement savings plans in the public/non-profit and corporate sectors that offers employer-sponsored defined contribution plans, administrative and recordkeeping services, individual retirement accounts, fund management, as well as investment and advisory services. Personal Capital Corporation, acquired in 2020, is a hybrid wealth manager that combines a leading-edge digital experience with personalized advice. Its products and services are marketed nationwide through its sales force, brokers, consultants, advisors, third-party administrators and financial institutions. Putnam provides investment management, certain administrative functions and distribution services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds, which are offered to individual and institutional investors.

The Europe segment is comprised of three distinct business units serving customers in the United Kingdom, Ireland and Germany respectively and offering protection and wealth management products, including payout annuity products. The UK and German units operate under the Canada Life brand and Irish unit operates under the Irish Life brand.

The Capital and Risk Solutions segment includes the Reinsurance business unit, which operates primarily in the U.S., Barbados, Bermuda and Ireland. Reinsurance products are provided through Canada Life and its subsidiaries. The Company's business includes both reinsurance and retrocession business transacted directly with clients or through reinsurance brokers. As a retrocessionaire, the Company provides reinsurance to other reinsurers to enable those companies to manage their insurance risk.

Lifeco currently has no other material holdings and carries on no business or activities unrelated to its holdings in Canada Life, GWL&A, Putnam, Irish Life and their subsidiaries. However, Lifeco is not restricted to investing in those companies and may make other investments in the future.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and are presented in millions of Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the Company's annual consolidated financial statements for the period ended December 31, 2020.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A may contain forward-looking information. Forward-looking information includes statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "will", "may", "expects", "anticipates", "intends", "plans", "believes", "estimates", "objective", "target", "potential" and other similar expressions or negative versions thereof. These statements 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, anticipated global economic conditions and possible future actions by the Company, including statements made with respect to the expected cost (including deferred consideration), benefits, timing of integration activities and revenue and expense synergies of acquisitions and divestitures, including the recent acquisitions of Personal Capital Corporation (Personal Capital) and the retirement services business of Massachusetts Mutual Life Insurance Company (MassMutual), expected capital management activities and use of capital, expected dividend levels, expected cost reductions and savings, expected expenditures or investments (including but not limited to investment in technology infrastructure and digital capabilities), the impact of regulatory developments on the Company's business strategy and growth objectives, the expected impact of the current pandemic health event resulting from the novel coronavirus ("COVID-19") and related economic and market impacts on the Company's business operations, financial results and financial condition.

Forward-looking statements are based on expectations, forecasts, estimates, 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, mutual fund and retirement solutions 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. 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. Whether or not actual results differ from forward-looking information may depend on numerous factors, developments and assumptions, including, without limitation, the severity, magnitude and impact of the novel coronavirus (COVID-19) pandemic (including the effects of the COVID-19 pandemic and the effects of governments' and other businesses' responses to the COVID-19 pandemic on the economy and the Company's financial results, financial condition and operations), assumptions around sales, fee rates, asset breakdowns, lapses, plan contributions, redemptions and market returns, the ability to integrate the acquisitions of Personal Capital and the retirement services business of MassMutual, the ability to leverage Empower Retirement's, Personal Capital's and MassMutual's retirement services businesses and achieve anticipated synergies, customer behaviour (including customer response to new products), the Company's reputation, market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy and plan lapse rates, participant net contribution, reinsurance arrangements, liquidity requirements, capital requirements, credit ratings, taxes, inflation, interest and foreign exchange rates, investment values, hedging activities, global equity and capital markets (including continued access to equity and debt markets), industry sector and individual debt issuers' financial conditions (including developments and volatility arising from the COVID-19 pandemic, particularly in certain industries that may comprise part of the Company's investment portfolio), the United Kingdom's exit ("Brexit") from the European Union, business competition, 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, unplanned material changes to the Company's facilities, customer and employee relations or credit arrangements, levels of administrative and operational efficiencies, changes in trade organizations, and other general economic, political and market factors in North America and internationally.

The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in other filings with securities regulators, including factors set out in this MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates" and in the Company's annual information form dated February 10, 2021 under "Risk Factors", which, along with other filings, is available for review at www.sedar.com. 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 information.

Other than as specifically required by applicable law, the Company does not intend to update any forward-looking information whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES

This MD&A contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "base earnings (loss)", "base earnings (loss)(US\$)", "base earnings per common share", "return on equity", "base return on equity", "core net earnings (loss)", "constant currency basis", "impact of currency movement", "premiums and deposits", "pre-tax operating margin", "sales", "assets under management" and "assets under administration". 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. Refer to the "Non-IFRS Financial Measures" section in this MD&A for the appropriate reconciliations of these non-IFRS financial measures to measures prescribed by IFRS as well as additional details on each measure.

CONSOLIDATED OPERATING RESULTS

Selected consolidated financial information

	As at or for the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
(in Canadian \$ millions, except for per share amounts)					
Earnings					
Base earnings ^{(1) (2)}	\$ 741	\$ 679	\$ 831	\$ 2,669	\$ 2,704
Net earnings – common shareholders	\$ 912	\$ 826	\$ 513	\$ 2,943	\$ 2,359
Per common share					
Basic:					
Base earnings ^{(1) (2)}	0.799	0.732	0.895	2.878	2.859
Net earnings	0.983	0.891	0.552	3.173	2.494
Diluted net earnings	0.983	0.891	0.552	3.172	2.493
Dividends paid	0.438	0.438	0.413	1.752	1.652
Book value	22.97	22.57	21.53		
Base return on equity ^{(1) (2) (3)}	12.8%	13.5%	13.4%		
Return on equity ^{(1) (3)}	14.1%	12.4%	11.7%		
Total premiums and deposits ^{(1) (5)}	\$ 40,831	\$ 40,903	\$ 39,096	\$ 171,345	\$ 150,638
Fee and other income	1,569	1,486	1,515	5,902	7,081
Net policyholder benefits, dividends and experience refunds	9,916	9,155	10,003	38,159	36,415
Total assets per financial statements	\$ 600,490	\$ 473,737	\$ 451,167		
Proprietary mutual funds and institutional assets ⁽¹⁾	350,943	341,436	320,548		
Total assets under management ⁽¹⁾	951,433	815,173	771,715		
Other assets under administration ⁽¹⁾	1,024,414	845,862	857,966		
Total assets under administration ⁽¹⁾	\$ 1,975,847	\$ 1,661,035	\$ 1,629,681		
Total equity	\$ 27,015	\$ 26,648	\$ 25,543		
The Canada Life Assurance Company					
consolidated LICAT Ratio ⁽⁴⁾	129%	131%	135%		

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Effective the first quarter of 2020, the Company introduced an enhanced non-IFRS earnings measure. Base earnings (loss) are defined as net earnings excluding the impact of actuarial assumption changes and other management actions, direct equity and interest rate market impacts on insurance and investment contract liabilities, net of hedging, and related deferred tax liabilities, and items that management believes are not indicative of the Company's underlying business results. These items would include restructuring and integration costs, material legal settlements, material impairment charges related to goodwill and intangible assets, legislative tax changes and other tax impairments, and gains or losses related to the disposition of a business.

(3) Refer to the "Return on Equity" section of this document for additional details.

(4) The Life Insurance Capital Adequacy Test (LICAT) ratio is based on the consolidated results of The Canada Life Assurance Company (Canada Life), Lifeco's major Canadian operating subsidiary. Refer to the "Capital Management and Adequacy" section of this document for additional details.

(5) Comparative figures have been reclassified to reflect presentation adjustments.

LIFECO 2020 HIGHLIGHTS

Financial Performance

- The Company maintained its strong capital position as evidenced by a Life Insurance Capital Adequacy Test (LICAT) ratio at December 31, 2020 of 129% for Canada Life, Lifeco's major Canadian operating subsidiary, which exceeded the Office of the Superintendent of Financial Institutions' (OSFI) Supervisory Target Total Ratio of 100%, and Supervisory Minimum Total Ratio of 90%.
- For the twelve months ended December 31, 2020, base earnings per common share were \$2.878 compared to \$2.859 a year ago, an increase of 1%, reflecting resilient earnings in all segments during the COVID-19 pandemic. For the twelve months ended December 31, 2020, base earnings of \$2,669 million were down \$35 million or 1% compared to 2019 base earnings of \$2,704 million. 2019 base earnings included the impact of the resolution of an issue with a tax authority which positively impacted Europe segment base earnings and \$63 million of earnings related to the U.S. individual life insurance and annuity business prior to its disposal in the second quarter of 2019.
- For the twelve months ended December 31, 2020, net earnings attributable to common shareholders (net earnings) were \$2,943 million, compared to \$2,359 million for the previous year, primarily reflecting the net positive impact from a number of strategic initiatives undertaken during the year. In 2020, Lifeco's net earnings include a net gain of \$94 million related to the sale of Irish Progressive Services International Limited (IPSI), a net gain of \$143 million related to the sale of GLC Asset Management Group Ltd. (GLC) and transaction, restructuring and integrations costs of \$145 million related to the acquisitions of Personal Capital Corporation (Personal Capital) and the retirement services business of Massachusetts Mutual Life Insurance Company (MassMutual or MassMutual transaction) as well as strategic initiatives in the Canadian segment. In addition, 2020 net earnings include the positive impact of the revaluation of a deferred tax asset of \$196 million as a result of higher expected U.S. segment earnings due to 2020 acquisitions. This deferred tax asset was de-recognized in the prior year and had a negative impact of \$199 million on 2019 net earnings. In 2019, net earnings were also impacted by a net charge of \$199 million relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life Insurance Company (Protective Life), restructuring costs of \$36 million at Putnam, and a gain of \$8 million related to the completion of the sale of a heritage block of policies to Scottish Friendly.
- In February 2020, Lifeco's quarterly common share dividend increased 6% to \$0.438 per share. On March 13, 2020, the Office of the Superintendent of Financial Institutions (OSFI) set the expectation that Canadian banks and insurers to suspend share buybacks and not to increase dividend payments. The Company does not currently intend to increase dividends or engage in share repurchases.
- The Company's financial leverage ratio at December 31, 2020 was 33.8%, compared to 27.6% the prior year. The leverage ratio was impacted by debt issuances in 2020, mainly in support of strategic acquisitions. Lifeco issued \$600 million 10-year debentures in May 2020 and \$500 million 30-year debentures in July 2020. Proceeds were used to redeem \$500 million of

debentures which matured in August 2020 as well as for general corporate purposes. Great-West Lifeco U.S. Finance 2020, LP, a subsidiary of the Company, issued \$663 million (US\$500 million) 5-year senior notes in August 2020 to fund the acquisition of Personal Capital. In September 2020, Empower Finance 2020, LP, a subsidiary of the Company, issued three tranches of senior notes totaling \$1,973 million (US\$1,500 million) to fund the MassMutual transaction.

Strategic Highlights

- Following the amalgamation of its three Canadian life insurance companies, which was effective January 1, 2020, the Canada segment has focused on leveraging the Canada Life brand, launching new digital platforms for both Group and Individual customers as well as continued focus on operational efficiencies and core strategies.

On December 31, 2020, the Company completed the sale of GLC to Mackenzie Financial Corporation (Mackenzie), an affiliate of the Company. GLC was a wholly-owned subsidiary of Canada Life whose principal activity was the provision of investment management services to Canada Life. The Company recorded a net gain on disposal of \$143 million after-tax, net of restructuring costs of \$16 million after-tax. This transaction provides the Company with access to greater scale and more investment capabilities. As a result of this transaction, the Company also established its own mutual fund manager, Canada Life Investment Management Ltd. (CLIML), which assumed fund management responsibilities for the Canada Life Mutual Funds, offered by Quadrus Investment Services Ltd., a subsidiary of Canada Life, and other Canada Life branded investment funds offered in Canada.

Also in the fourth quarter of 2020, two initiatives impacting the Canada segment operations were announced. The Company announced changes to its Canadian distribution strategy and vision for advisor based distribution, and IGM Financial, an affiliate of the Company, notified the Company of its intent to terminate its long-term technology infrastructure related sharing agreement with the Company in the first quarter of 2021. These initiatives, together with the sale of GLC will result in staff reductions, exit costs for certain facilities lease agreements and decommissioning activities related to technology and other assets. As a result, the Company has recorded a restructuring provision of \$92 million, which includes the restructuring costs associated with the GLC disposition (\$68 million in the shareholder account and \$24 million in the participating account). The after-tax impact of the restructuring provision on net earnings is \$68 million (\$50 million in the shareholder account, or \$34 million excluding the GLC disposition related restructuring expenses, and \$18 million in the participating account). Changes relating to these initiatives are expected to be fully implemented by the end of 2022.

- In the U.S. segment, the Company completed a number of strategic acquisitions to expand and enhance its retirement and retail wealth management business, operating under the Empower Retirement brand.

Effective December 31, 2020, the Company acquired the retirement services business of MassMutual for US\$2.3 billion of ceding commission, net of adjustments for working capital, which fortified its position as the second largest retirement services provider in the U.S. based on assets under

administration and number of retirement plan participants. This transaction is expected to be accretive to Lifeco's earnings.

In August of 2020, the Company completed the acquisition of Personal Capital, a hybrid wealth manager that combines a leading-edge digital experience with personalized advice delivered by human advisors. Under the terms of the agreement, the Company acquired 100% of the equity of Personal Capital for US\$813 million on closing and deferred consideration subject to achievement of target growth objectives.

In the fourth quarter of 2020, the Company completed its acquisition of the retirement services business of Fifth Third Bank and subsequent to December 31, 2020, on January 6, 2021, the Company announced a definitive agreement to acquire the retirement services business of Truist Bank. Both are former private-label recordkeeping clients, and together these acquisitions bring approximately US\$11 billion in assets, approximately 800 retirement plans and approximately 173,000 participants on to the Empower Retirement platform.

Empower Retirement participants of 11.9 million at December 31, 2020 grew 27% from 9.4 million participants at December 31, 2019. Assets under administration grew 42% over the year to US\$958 billion on December 31, 2020. The increases include the addition of the MassMutual retirement business which contributed 2.5 million participants and US\$190 billion in assets under administration.

At Putnam, restructuring activities were mostly completed in 2020 resulting in approximately US\$28 million in pre-tax annual operating expense savings as it realigned its resources to better position itself for current and future opportunities. These actions included technology modernization, product consolidation, a reduction in staff and facilities reorganization and resulted in restructuring charges which reduced net earnings in 2019 by \$36 million (US\$28 million).

- In Europe, the Company has substantially completed the multi-year U.K. restructuring program which began in 2018 following the acquisition of Retirement Advantage. The program is enhancing the efficiency of the U.K. business operating model across all product lines and includes the modernization of its technology platforms, thereby underpinning sustainable earnings growth and supporting strategic expansion. The technology modernization is accompanied by complementary enhancement of investment, finance and risk capabilities.

As Irish Life continues to focus on its core business, effective August 4, 2020, Irish Life completed the sale of IPSI, a wholly-owned subsidiary, whose principal activity is the provision of outsourced administration services for life assurance companies. The net gain resulting from the transaction was \$94 million. In addition, Irish Life continued to build its distribution and wealth management capability through a number of acquisitions. While these business will largely remain autonomous, they have been grouped into a new division ("Intermediary Business") which will serve 3 core markets – the public sector, employee benefit consulting and wealth management. Individually these transactions are not expected to have a material impact on the Company's financial position but collectively they expand Irish Life's reach into these 3 strategically important markets.

The U.K. and the European Union (EU) agreed on a comprehensive trade agreement in December 2020 effective January 1, 2021 to replace the transitional arrangements that were in place since the U.K. left the EU on January 31, 2020. The Company's European businesses will continue to trade as normal within their respective domestic markets.

- During 2020, in Capital and Risk Solutions, the Reinsurance business unit completed three major long-term longevity reinsurance agreements with over \$15 billion of in-force liabilities combined. Over 92,000 in-payment and deferred pensioners will be reinsured by Canada Life Reinsurance under these agreements. These transactions highlight the Company's strength as a partner for reinsurance longevity transactions globally.

The Reinsurance business unit also established a new subsidiary in Bermuda to help improve its efficiency for certain types of reinsurance transactions.

COVID-19 Pandemic Impacts

Beginning in January 2020, the outbreak of a virus known as COVID-19 and ensuing global pandemic resulted in travel and border restrictions, self-imposed quarantine periods and physical distancing, supply chain disruptions, reduced consumer demand and significant market uncertainty. This has caused material disruption to businesses globally, resulting in an economic slowdown. In the first quarter of 2020, global financial markets experienced material and rapid declines and significant volatility; however, during the remainder of 2020, the markets experienced recoveries. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. In addition, the Company has provided support to communities through financial donations across the geographic regions in which the Company operates.

While equity and fixed income markets have improved since March 31, 2020, interest rates remain low and COVID-19 challenges have begun to manifest through investment credit rating downgrades and real estate value declines, although modest in 2020. The Company experienced modest downgrades in the year, however, depending on the length of the shutdowns and recovery of the economy there could be a larger impact from downgrades in future periods. The Company's asset liability management strategy is designed to mitigate interest rate risk; however, while the Company has limited sensitivity to fluctuations in interest rates, a prolonged period of low interest rates may adversely impact the profitability of certain products the Company provides, and repricing actions have been, and will continue to be, undertaken as necessary.

Premium and investment related deferrals were limited, partially as a result of continued government support in many jurisdictions. The Company expects to see continued reduced sales opportunities for certain products given client and prospect concerns about the breadth and severity of the pandemic and its longer-term effect on businesses. Sales teams and financial advisors have been adapting to the new remote environment and are adjusting processes going forward. While the Company experienced lower sales in certain areas of its business, customer retention remained high. If lower sales persist it could adversely impact asset, premiums and fee income levels.

In March 2020, the Company announced a temporary suspension of contributions to and redemptions and transfers from its real estate segregated funds in Canada and Europe as the economic conditions

Management's Discussion and Analysis

caused by the COVID-19 situation led to valuation uncertainty in the real estate industry. Management determined the need to temporarily suspend withdrawals and transfers-out from the funds in order to protect the long term interest of the unitholders.

Valuation certainty is selectively returning to certain sectors and geographies of the real estate market. In the fourth quarter of 2020, the temporary suspension was lifted from the Company's U.K. real estate fund and certain Irish property funds as the material valuation uncertainty clauses that had been in effect across those funds' main asset classes were lifted by the independent third party appraisers. The Company's Irish Property Modules fund continues to operate with a 6 month redemption deferral. As of January 11, 2021, Canada has partially lifted the suspension, allowing contributions and transfers into the fund. As well, requests for redemptions and transfers out of the fund are being accepted for a limited period and will be processed, subject to available liquidity, on pre-specified dates; however, redemptions and transfers out of the fund otherwise remain suspended.

Outlook for 2021

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

- Lifeco is continuing to focus on its core strategies: delivering financial security and wellness through the workplace, providing advice-centered wealth management, delivering strong investment and asset management and leveraging risk and capital management expertise. The Company will invest strategically – both organically and through acquisitions – to drive growth and productivity, while maintaining strong risk and expense discipline, to deliver sustainable long-term value to its customers and shareholders.

In 2021, the Company will remain focused on future regulatory changes, including preparing for the implementation of accounting changes related to IFRS 17, *Insurance Contracts*, which is effective on January 1, 2023. The Company will continue to invest in updating processes and systems throughout the implementation period.

- In Canada, the Company will continue to invest in innovative technologies, focus on strategies to enhance growth and its competitive position and identify ways to further streamline its products, marketing, operations and structure as it delivers its products. Specifically, in its Group business, Canada Life will continue to invest in innovative member service tools and coverage solutions, allowing for greater personalization of experience and to support its customers financial security and wellness in the workplace. In its Individual business, Canada Life will continue the roll-out of market-leading solutions and digital tools that improve the client and advisor experience and provide personalized wealth solutions.
- In the U.S., focus will continue on the defined contribution retirement market and building awareness for the Empower Retirement brand to help drive organic retail and business-to-business growth. The Company will focus on integrating 2020 acquisitions and realizing target synergies while enhancing the overall customer experience through innovation and service excellence. At Putnam, the focus will continue to be on driving growth and market share through strong investment performance, service excellence and digital capabilities while optimizing business economics.

- The Company intends to invest in additional system functionality and digital capability in the U.K. in both the group and individual marketplace. In Ireland, deepening and broadening the market leading retail, corporate and investment management businesses, including products to support customers' financial security and wellness, will continue to be the focus. In Germany, the Company plans to continue to expand its presence in the pension and protection markets by focusing on the introduction of innovative products and services whilst enhancing its systems capabilities.
- In Capital and Risk Solutions, through its leading market positions, the Reinsurance business unit will strategically focus on expanding into other key markets. Building on its diversified multi-niche base, Capital and Risk Solutions will deploy its capital to meet clients' evolving needs.
- The Company's financial outlook for 2021 will depend in part on the duration and intensity of the COVID-19 pandemic impacts and the availability and adoption of vaccines. Service continuity plans will continue to be in operation across the Company as the majority of employees continue to work remotely to provide service to customers and maintain operations and technology functions. The impact of the pandemic on mortality and disability and other claims experience in future periods is uncertain. Mitigating these uncertain impacts is the Company's well-diversified businesses. This diversity, combined with business strength, resilience and experience, puts the Company in a strong position to manage the current environment and leverage opportunities for the future. Lifeco's strategies are equally resilient and flexible, positioning the Company to manage through the recovery and continue to identify and pursue opportunities, including organic growth and acquisition activities, while supporting customers and employees in a new environment.

NET EARNINGS

Consolidated base earnings and net earnings of Lifeco include the base earnings and net earnings of Canada Life and its operating subsidiary, Irish Life; GWL&A and Putnam; together with Lifeco's Corporate operating results.

Effective January 1, 2020, as a result of strategic operational changes, the Company has divided the previously reported Europe segment into two separate reporting segments – Europe and Capital and Risk Solutions. The Company's other reportable segments – Canada, United States and Lifeco Corporate – are unchanged. Comparative figures have been reclassified to reflect the new composition of the reportable segments.

Effective the first quarter of 2020, the Company introduced an enhanced non-IFRS earnings measure to reflect management's view of the underlying business performance of the Company. The measure – base earnings (loss) – is being adopted to enhance comparability of results between reporting periods and in anticipation of the implementation of accounting changes related to IFRS 17, *Insurance Contracts*, on January 1, 2023. Refer to the "Non-IFRS Financial Measures" section in this MD&A for additional details.

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Base earnings ⁽¹⁾ and Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Base earnings (loss) ⁽¹⁾					
Canada	\$ 348	\$ 270	\$ 274	\$ 1,206	\$ 1,178
United States	90	83	89	273	350
Europe	195	182	317	688	796
Capital and Risk Solutions	124	156	157	536	401
Lifeco Corporate	(16)	(12)	(6)	(34)	(21)
Lifeco base earnings ⁽¹⁾	\$ 741	\$ 679	\$ 831	\$ 2,669	\$ 2,704
Items excluded from base earnings ⁽²⁾					
Actuarial assumption changes and other management actions ⁽²⁾	\$ (23)	\$ 66	\$ (78)	\$ 113	\$ 170
Market-related impacts on liabilities ⁽²⁾	(31)	18	(13)	(127)	(89)
Net gain/charge on business dispositions ⁽²⁾	143	94	8	237	(191)
Transaction costs related to the acquisitions of Personal Capital and MassMutual ⁽²⁾	(47)	(31)	–	(78)	–
Revaluation of a deferred tax asset ⁽²⁾	196	–	(199)	196	(199)
Restructuring and integration costs ⁽²⁾	(67)	–	(36)	(67)	(36)
Items excluded from Lifeco base earnings ⁽²⁾	\$ 171	\$ 147	\$ (318)	\$ 274	\$ (345)
Net earnings (loss) – common shareholders					
Canada	\$ 300	\$ 266	\$ 188	\$ 1,070	\$ 1,051
United States	208	89	(121)	380	(61)
Europe	253	316	335	913	1,004
Capital and Risk Solutions	167	167	117	614	386
Lifeco Corporate	(16)	(12)	(6)	(34)	(21)
Lifeco net earnings – common shareholders	\$ 912	\$ 826	\$ 513	\$ 2,943	\$ 2,359

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

The information in the table above is a summary of results for net earnings of the Company. Additional commentary regarding net earnings is included in the "Segmented Operating Results" section.

Base earnings

Base earnings for the fourth quarter of 2020 of \$741 million (\$0.799 per common share) decreased by \$90 million from \$831 million (\$0.895 per common share) a year ago. The decrease was primarily due to the positive impact of a resolution of an outstanding issue with a foreign tax authority in 2019 in the Europe segment which did not recur, unfavourable group mortality in the Europe segment as well as new business strain in the Capital and Risk Solutions segment. These items were mostly offset by favourable morbidity and mortality experience in the Canada segment.

For the twelve months ended December 31, 2020, Lifeco's base earnings were \$2,669 million (\$2.878 per common share) compared to \$2,704 million (\$2.859 per common share) a year ago. The decrease was primarily due to the resolution of an outstanding issue with a foreign tax authority in 2019 discussed for the in-quarter results as well as lower base earnings in the U.S. segment. The decrease was partially offset by business growth in the Capital and Risk Solutions segment. Base earnings for the twelve months ended December 31, 2019 included \$63 million of earnings related to the U.S. individual life insurance and annuity business ("Reinsured Insurance & Annuity" business unit) prior to its sale on June 1, 2019, to Protective Life.

Net earnings

Lifeco's net earnings for the three month period ended December 31, 2020 of \$912 million (\$0.983 per common share) increased by \$399 million or 78% compared to \$513 million (\$0.552 per common share) a year ago. The increase was primarily due to the positive impact of the revaluation of a deferred tax asset of \$196 million in the U.S. segment and a net gain of \$143 million related to the sale of GLC. The increase was partially offset by transaction, restructuring and integration costs of \$114 million related to the acquisition of Personal Capital and the retirement services business of MassMutual as well as strategic initiatives in the Canadian segment. Net earnings in the fourth quarter of 2019 included the negative impact of the de-recognition of a deferred tax asset of \$199 million in the U.S. segment.

For the twelve months ended December 31, 2020, Lifeco's net earnings were \$2,943 million (\$3.173 per common share) compared to \$2,359 million (\$2.494 per common share) a year ago. The increase was primarily due to the positive impact of the revaluation of a deferred tax asset and the net gain on the sale of GLC discussed for the in-quarter results as well as a net gain of \$94 million related to the sale of IPSI in the third quarter of 2020. The increase was partially offset by the transaction, restructuring and integration costs incurred to date discussed for the in-quarter results and lower contributions from insurance contract liability basis changes and market-related impacts on liabilities due to significant market declines in the first quarter of 2020 driven by

the COVID-19 pandemic. In addition, Lifeco's net earnings for the twelve months ended December 31, 2019 included a net charge of \$199 million (US\$148 million) relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life and the negative impact of the de-recognition of a deferred tax asset of \$199 million.

Actuarial Assumption Changes and Other Management Actions

For the three months ended December 31, 2020, actuarial assumption changes and other management actions, excluding the gain on sale of GLC and the transaction costs related to the acquisition of MassMutual's retirement services business, resulted in a negative net earnings impact of \$23 million compared to a negative impact of \$78 million for the same quarter last year and a positive impact of \$66 million for the previous quarter.

In Canada, net earnings were negatively impacted by \$147 million primarily due to updated policyholder behaviour and economic and asset related assumptions, partially offset by updated life mortality assumptions. In Europe, net earnings were positively impacted by \$78 million, primarily due to updated annuitant mortality assumptions, partially offset by updated economic and asset related assumptions. In Capital and Risk Solutions, net earnings were positively impacted by \$43 million primarily due to updated economic and annuitant mortality assumptions, partially offset by updated expense assumptions. In the U.S., net earnings were positively impacted by \$3 million, due to updated annuitant mortality assumptions.

Excluding the net gain on sale of IPSI of \$94 million, the gain on sale of GLC and the negative impact of \$78 million due to the transaction costs related to the acquisitions of Personal Capital and MassMutual's retirement services business, assumption changes and other management actions for the twelve months ended December 31, 2020, resulted in a positive net earnings impact of \$113 million. For the twelve months ended December 31, 2019, actuarial assumption changes and other management actions resulted in a positive net earnings impact of \$170 million excluding the impact of the Scottish Friendly transaction and the reinsurance transaction with Protective Life.

Market-Related Impacts

In the regions where the Company operates, average equity market levels in the fourth quarter of 2020 were higher in the U.S., remained consistent in Canada and were lower in the U.K. and broader Europe compared to the same period in 2019; however, markets ended the quarter higher for the U.S., Canada, the U.K. and broader Europe compared to September 30, 2020. For the twelve months ended December 31, 2020, average equity market levels were higher in the U.S. and lower in Canada, the U.K. and broader Europe compared to the same period in 2019.

Comparing the fourth quarter of 2020 to the fourth quarter of 2019, average equity market levels were up by less than 1% in Canada (as measured by S&P TSX), up 15% in the U.S. (as measured by S&P 500), down 15% in the U.K. (as measured by FTSE 100) and down 6% in broader Europe (as measured by Eurostoxx 50). The major equity indices finished the fourth quarter of 2020 up 8% in Canada, up 12% in the U.S., up 10% in the U.K. and up 11% in broader Europe, compared to September 30, 2020.

In countries where the Company operates, government treasury rates for the most part decreased, while credit spreads for the most part narrowed during 2020.

Market-related impacts on liabilities negatively impacted net earnings by \$31 million in the fourth quarter of 2020 (negative impact of \$13 million in the fourth quarter of 2019), primarily related to an unfavourable impact of changes to certain tax estimates driven by equity market recovery in the fourth quarter of 2020 as well as the valuation of insurance contract liabilities which are supported by equities and real estate driven by lower markets earlier in the year. Included in the total negative impact of \$31 million in the fourth quarter of 2020 was a positive impact of \$7 million related to legacy block segregated fund guarantee business.

For the twelve months ended December 31, 2020, market-related impacts on liabilities negatively impacted net earnings by \$127 million (negative impact of \$89 million in 2019). While equity markets rebounded during the second to fourth quarters of 2020, the year-to-date negative impact reflects the significant decline and volatility in equity markets and interest rates in the first quarter of 2020 which impacted the value of segregated fund and variable annuity guarantees, including related hedging ineffectiveness and was only partially recovered during the remainder of the year. Included in the total negative impact of \$127 million in 2020 was a negative impact of \$3 million related to legacy block segregated fund guarantee business.

In order to mitigate the Company's exposure to interest rate fluctuations, the Company follows disciplined processes for matching asset and liability cash flows. As a result, the impact of changing interest rates is mostly mitigated in the current period, including the impact of changes in fair values of bonds backing insurance contract liabilities recorded through profit or loss which was mostly offset by a corresponding change in the insurance contract liabilities.

For a further description of the Company's sensitivity to equity market and interest rate fluctuations, including expanded sensitivity disclosure as a result of current market conditions, refer to "Financial Instruments Risk Management", note 8 in the Company's consolidated financial statements for the period ended December 31, 2020.

Foreign Currency

The average currency translation rate for the fourth quarter of 2020 decreased for the U.S. dollar and increased for the British pound and the euro compared to the fourth quarter of 2019. The overall impact of currency movement on the Company's net earnings for the three month period ended December 31, 2020 was an increase of \$10 million (increase of \$43 million year-to-date) compared to translation rates a year ago.

From September 30, 2020 to December 31, 2020, the market rate at the end of the reporting period used to translate U.S. dollar and euro assets and liabilities to the Canadian dollar decreased, while the British pound increased. The movements in end-of-period exchange rates resulted in unrealized foreign exchange losses from the translation of foreign operations, including related hedging activities, of \$272 million in-quarter (\$25 million net unrealized gains year-to-date) recorded in other comprehensive income.

Throughout this document a number of terms are used to highlight the impact of foreign exchange on results, such as: "constant currency basis" and "impact of currency movement". These non-

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IFRS measures have been calculated using the average or period-end rates, as appropriate, in effect at the date of the comparative period. These non-IFRS measures provide useful information as they facilitate the comparability of results between periods. Refer

to the "Non-IFRS Financial Measures" section of this document for additional details.

Translation rates for the reporting period and comparative periods are detailed in the "Translation of Foreign Currency" section.

Credit Markets

Credit markets impact on common shareholders' net earnings (after-tax)

	Impairment (charges) / recoveries	Changes in provisions for future credit losses ⁽¹⁾	Total	Impairment (charges) / recoveries	Changes in provisions for future credit losses ⁽¹⁾	Total
	For the three months ended December 31, 2020			For the twelve months ended December 31, 2020		
Canada	\$ —	\$ (2)	\$ (2)	\$ —	\$ (7)	\$ (7)
United States	—	2	2	(5)	(5)	(10)
Europe	(3)	1	(2)	(8)	(45)	(53)
Capital and Risk Solutions	—	(1)	(1)	—	(9)	(9)
Total	\$ (3)	\$ —	\$ (3)	\$ (13)	\$ (66)	\$ (79)
	For the three months ended December 31, 2019			For the twelve months ended December 31, 2019		
Total	\$ 5	\$ (13)	\$ (8)	\$ (14)	\$ (1)	\$ (15)

(1) Impact of changes in credit ratings in the Company's fixed income portfolio on provisions for future credit losses in insurance contract liabilities.

As a result of the COVID-19 pandemic, many areas of the credit markets exhibited extreme volatility in March of 2020 with spreads widening in investment grade and high yield markets. Since March 2020, credit spreads narrowed significantly and some downgrades were seen across industries from the rating agencies, particularly to issuers in sectors most affected by economic shutdowns or perceived deterioration in future business models. The Company experienced a higher impact from downgrades during 2020 compared to 2019. Depending on the length of the shutdowns and recovery of the economy there could be a larger impact from downgrades in future periods.

In the fourth quarter of 2020, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholders' net earnings by \$3 million (\$5 million net recovery in the fourth quarter of 2019). Changes in credit ratings in the Company's fixed income portfolio had a negligible impact on common shareholders' net earnings in the quarter (\$13 million negative impact in the fourth quarter of 2019).

For the twelve months ended December 31, 2020, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholders' net earnings by \$13 million (\$14 million net charge in 2019). Net charges on impaired investments reflect net allowances for credit losses included in net investment income and the associated release of actuarial provisions for future credit losses, as applicable. Charges for the twelve months ended December 31, 2020 were primarily driven by impairment charges on mortgage loans in the U.K. Changes in credit ratings in the Company's fixed income portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by \$66 million year-to-date (\$1 million net negative impact in 2019), primarily due to downgrades of bonds and mortgages in the U.K.

INCOME TAXES

The Company's effective income tax rate is generally lower than the statutory income tax rate of 26.50% due to benefits related to non-taxable investment income and lower income tax in foreign jurisdictions.

Effective income tax rate

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Base earnings – Common shareholders	13.3%	5.7%	—%	10.1%	10.1%
Net earnings – Common shareholders	(20.4)%	4.8%	23.5%	(0.9)%	15.7%
Base earnings – Total Lifeco	11.0%	3.8%	(3.2)%	8.7%	7.4%
Net earnings – Total Lifeco	(24.4)%	2.1%	21.6%	(2.7)%	13.0%

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In the fourth quarter of 2020, the Company had an effective income tax rate on base earnings of 11.0% up from negative 3.2% in the fourth quarter of 2019, primarily as a result of the resolution of an outstanding issue with a foreign tax authority in the fourth quarter of 2019 which decreased the 2019 effective income tax rate by 12.5 points.

In the fourth quarter of 2020, the Company had an effective income tax rate of negative 24.4%, down from 21.6% in the fourth quarter of 2019 primarily due to the revaluation of a deferred tax asset related to losses in a U.S. subsidiary. As a result of the U.S. acquisitions of the retirement services business of MassMutual and Personal Capital in 2020, management revised its estimates of future taxable profits and recognized a deferred tax asset that had previously been de-recognized in the fourth quarter of 2019. The deferred income tax asset revaluation resulted in a \$196 million recovery to income tax expense in 2020 compared to a \$199 million charge in 2019. This resulted in a decrease in the effective income tax rate in 2020 by 26.1 points compared to an increase to the effective income tax rate in 2019 by 30.1 points. Also, in the fourth quarter of 2020, non-taxable gains on the sale of the shares of GLC decreased the effective income tax rate by 5.6 points; while in the fourth quarter of 2019 the resolution of the outstanding issue with a foreign tax authority decreased the effective income tax rate by 15 points.

The Company had an effective income tax rate on base earnings of 8.7% for the twelve months ended December 31, 2020, which was comparable to 7.4% for the same period last year.

The Company had an effective income tax rate of negative 2.7% for the twelve months ended December 31, 2020 compared to

13.0% for the same period last year. The decrease was primarily due to the revaluation of the deferred tax asset discussed for the in-quarter results, which reduced the 2020 effective income tax rate by 6.4 points and increased the 2019 effective income tax rate by 6.9 points, as well as, the non-taxable gains on the sale of the shares of GLC and IPSI, which decreased the 2020 effective income tax rate by 2.1 points.

In the fourth quarter of 2020, the Company had an effective income tax rate on base earnings of 11.0%, up from 3.8% in the third quarter of 2020, primarily due to changes in certain tax estimates and jurisdictional mix of earnings.

In the fourth quarter of 2020, the Company had an effective income tax rate of negative 24.4%, down from 2.1% in the third quarter of 2020, primarily due to the revaluation of the deferred tax asset discussed for the in-quarter results.

The Company recognizes deferred income tax assets based on the probability that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred income tax asset to be utilized. As at December 31, 2020, the Company has recognized a deferred income tax asset of \$1,411 million on tax loss carryforwards. While \$344 million pertains to losses with no expiry, \$454 million pertains to losses expiring between 2026 and 2030, \$413 million to losses expiring between 2031 and 2035 and \$200 million to losses expiring between 2036 and 2040. Included in the deferred income tax asset balance is \$879 million (US\$692 million) from a U.S. subsidiary with a history of losses, \$496 million (US\$391 million) of which relates to certain restricted losses with an expiry between 2027 and 2034.

PREMIUMS AND DEPOSITS AND SALES

Premiums and deposits ⁽¹⁾

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Canada ⁽⁵⁾	\$ 7,017	\$ 6,161	\$ 7,229	\$ 25,838	\$ 27,346
United States ⁽²⁾	20,582	24,138	19,480	93,479	70,475
Europe	7,896	6,114	7,925	32,621	35,351
Capital and Risk Solutions ⁽³⁾	5,336	4,490	4,462	19,407	17,466
Total premiums and deposits ^{(1) (5)}	\$ 40,831	\$ 40,903	\$ 39,096	\$ 171,345	\$ 150,638

Sales ^{(1) (3)}

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Canada	\$ 3,729	\$ 2,520	\$ 3,609	\$ 12,271	\$ 13,249
United States ⁽⁴⁾	27,439	27,987	31,781	136,884	163,087
Europe	6,874	5,313	6,566	28,996	31,976
Total sales ⁽¹⁾	\$ 38,042	\$ 35,820	\$ 41,956	\$ 178,151	\$ 208,312

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) For the twelve months ended December 31, 2019, premiums and deposits exclude the initial ceded premium of \$13,889 million related to the business transferred to Protective Life under an indemnity reinsurance agreement effective June 1, 2019.

(3) Sales is not a relevant measure for the Capital and Risk Solutions segment due to the nature of operations.

(4) For the twelve months ended December 31, 2019, sales for the United States reflect \$0.4 billion related to the Reinsured Insurance & Annuity business unit.

(5) Comparative figures have been reclassified to reflect presentation adjustments.

The information in the table above is a summary of results for the Company's total premiums and deposits and sales. Additional commentary regarding premiums and deposits and sales is included in the "Segmented Operating Results" section.

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NET INVESTMENT INCOME

Net investment income

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Investment income earned (net of investment properties expenses)	\$ 1,380	\$ 1,420	\$ 1,388	\$ 5,664	\$ 5,965
Allowances for credit losses on loans and receivables	(6)	(1)	(2)	(16)	(50)
Net realized gains	220	106	119	466	412
Regular investment income	1,594	1,525	1,505	6,114	6,327
Investment expenses	(34)	(32)	(43)	(151)	(166)
Regular net investment income	1,560	1,493	1,462	5,963	6,161
Changes in fair value through profit or loss	1,984	785	(1,766)	5,699	6,946
Net investment income	\$ 3,544	\$ 2,278	\$ (304)	\$ 11,662	\$ 13,107

Net investment income in the fourth quarter of 2020, which includes changes in fair value through profit or loss, increased by \$3,848 million compared to the same quarter last year. The changes in fair value in the fourth quarter of 2020 were an increase of \$1,984 million compared to a decrease of \$1,766 million for the fourth quarter of 2019. In the fourth quarter of 2020, the net increase to fair values was primarily due to a decline in bond yields across all geographies and an increase in Canadian equity markets. In the fourth quarter of 2019, the net decrease to fair values was primarily due to an increase in bond yields across all geographies.

Regular net investment income in the fourth quarter of 2020 of \$1,560 million, which excludes changes in fair value through profit or loss, increased by \$98 million compared to the same quarter last year. The increase was primarily due to higher net realized gains related to the sale of GLC. Net realized gains include gains on available-for-sale securities of \$13 million for the fourth quarter of 2020 compared to \$24 million for the same quarter last year.

For the twelve months ended December 31, 2020, net investment income decreased by \$1,445 million compared to the same period last year. The changes in fair value for the twelve month period in 2020 were an increase of \$5,699 million compared to \$6,946 million during the same period in 2019. The changes in fair value were primarily due to a smaller decline in U.K. and U.S. bond yields and a smaller increase in Canadian equity markets in 2020 compared to 2019.

Regular net investment income for the twelve months ended December 31, 2020 of \$5,963 million decreased by \$198 million compared to the same period last year. The decrease was primarily due to lower interest on bond and mortgage investments, primarily relating to U.S. segment assets transferred under the indemnity reinsurance agreement with Protective Life in the second quarter of 2019, partially offset by higher net realized gains. Net realized gains include gains on available-for-sale securities of \$141 million for the twelve months ended December 31, 2020 compared to net realized gains of \$76 million for the same period last year.

Net investment income in the fourth quarter of 2020 increased by \$1,266 million compared to the previous quarter, primarily due to net increases in fair values of \$1,984 million in the fourth quarter of 2020 compared to net increases in fair values of \$785 million in the previous quarter. The changes in fair value were primarily due to a larger decline in U.K. bond yields in the fourth quarter of 2020, compared to the third quarter of 2020, and a larger increase in Canadian equity markets in the fourth quarter of 2020, compared to the third quarter of 2020.

FEE AND OTHER INCOME

In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products are segregated funds and mutual funds, for which the Company earns investment management fees on assets managed and other fees, as well as administrative services only (ASO) contracts, under which the Company provides group benefit plan administration on a cost-plus basis.

Fee and other income

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Canada					
Segregated funds, mutual funds and other	\$ 407	\$ 397	\$ 404	\$ 1,568	\$ 1,561
ASO contracts	54	48	53	188	205
	461	445	457	1,756	1,766
United States					
Segregated funds, mutual funds and other	754	696	679	2,769	2,687
Life insurance and annuity reinsurance ceding commission ⁽¹⁾	—	—	—	—	1,080
	754	696	679	2,769	3,767
Europe					
Segregated funds, mutual funds and other	351	342	377	1,366	1,539
Capital and Risk Solutions					
Reinsurance and Other	3	3	2	11	9
Total fee and other income	\$ 1,569	\$ 1,486	\$ 1,515	\$ 5,902	\$ 7,081

(1) For the twelve months ended December 31, 2019, fee and other income includes a ceding commission of \$1,080 million related to the Protective Life transaction.

The information in the table above is a summary of gross fee and other income for the Company. Excluding the ceding commission related to the Protective Life transaction, fee and other income for the twelve months ended December 31, 2019 was \$6,001 million. Additional commentary regarding fee and other income is included in the "Segmented Operating Results" section.

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NET POLICYHOLDER BENEFITS, DIVIDENDS AND EXPERIENCE REFUNDS

Net policyholder benefits, dividends and experience refunds

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Canada	\$ 2,556	\$ 2,224	\$ 2,514	\$ 9,276	\$ 9,684
United States	1,072	1,197	1,187	5,028	4,412
Europe	1,003	1,015	1,546	3,948	4,277
Capital and Risk Solutions	5,285	4,719	4,756	19,907	18,042
Total	\$ 9,916	\$ 9,155	\$ 10,003	\$38,159	\$ 36,415

Net policyholder benefits, dividends and experience refunds include life and health claims, policy surrenders, maturities, annuity payments, segregated fund guarantee payments, policyholder dividends and experience refund payments. The amounts do not include benefit payments for ASO contracts, segregated funds or mutual funds.

For the three months ended December 31, 2020, net policyholder benefits, dividends and experience refunds were \$9.9 billion, a decrease of \$0.1 billion from the same period in 2019 driven by lower net policyholder benefits. The decrease in benefit payments was primarily due to lower surrender benefits in the Europe segment as a result of the sale of a heritage block of individual policies to Scottish Friendly in the fourth quarter of 2019. The decrease was partially offset by new reinsurance agreements and volume changes relating to existing business in the Capital and Risk Solutions segment.

For the twelve months ended December 31, 2020, net policyholder benefits, dividends and experience refunds were \$38.2 billion, an increase of \$1.7 billion from the same period in 2019 driven by higher net policyholder benefits. The increase in benefit payments was primarily due to new reinsurance agreements and volume changes relating to existing business in the Capital and Risk Solutions segment as well as higher surrender benefits, partially offset by higher ceded policyholder benefits in the U.S. segment.

Compared to the previous quarter, net policyholder benefits, dividends and experience refunds increased by \$0.8 billion, driven by higher net policyholder benefits. The increase in benefit payments was primarily due to new reinsurance agreements and volume changes relating to existing business in the Capital and Risk Solutions segment as well as higher surrender benefits in the Canada segment, partially offset by lower death benefits in the U.S. segment.

OTHER BENEFITS AND EXPENSES

Other benefits and expenses ⁽¹⁾

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Operating and administrative expenses	\$ 1,498	\$ 1,365	\$ 1,298	\$ 5,492	\$ 5,231
Commissions	657	549	650	2,396	2,429
Premium taxes	124	119	128	480	506
Financing charges	79	71	71	284	285
Amortization of finite life intangible assets and impairment reversal	63	58	60	238	224
Restructuring and integration expenses	134	–	52	134	52
Total	\$ 2,555	\$ 2,162	\$ 2,259	\$ 9,024	\$ 8,727

(1) For the twelve months ended December 31, 2019, operating and administrative expenses include \$120 million related to the U.S. individual life and annuity business sold to Protective Life June 1, 2019. Refer to the "Segmented Operating Results – United States" section of this document for additional details.

Other benefits and expenses for the fourth quarter of 2020 of \$2,555 million increased by \$296 million compared to the fourth quarter of 2019, primarily due to restructuring and integration expenses in the Canada and U.S. segments, as well as higher operating and administrative expenses primarily driven by the acquisition of Personal Capital and business growth in the Capital and Risk Solutions segment.

For the twelve months ended December 31, 2020, other benefits and expenses increased by \$297 million to \$9,024 million compared to the same period last year, primarily due to same reasons discussed for the in-quarter results.

Other benefits and expenses for the fourth quarter of 2020 increased by \$393 million compared to the previous quarter, primarily due to same reasons discussed for the in-quarter results, as well as higher commissions in the Canada and Europe segments.

CONSOLIDATED FINANCIAL POSITION

ASSETS

Assets under administration ⁽¹⁾

	December 31, 2020				
	Canada	United States	Europe	Capital and Risk Solutions	Total
Assets					
Invested assets	\$ 87,732	\$ 54,522	\$ 50,793	\$ 5,951	\$ 198,998
Goodwill and intangible assets	5,625	5,729	3,037	—	14,391
Other assets	3,661	30,347	10,151	8,910	53,069
Investments on account of segregated fund policyholders	90,680	117,982	125,370	—	334,032
Total assets	187,698	208,580	189,351	14,861	600,490
Proprietary mutual funds and institutional net assets ⁽¹⁾	7,311	284,251	59,381	—	350,943
Total assets under management ⁽¹⁾	195,009	492,831	248,732	14,861	951,433
Other assets under administration ⁽¹⁾	18,554	994,989	10,871	—	1,024,414
Total assets under administration ⁽¹⁾	\$ 213,563	\$ 1,487,820	\$ 259,603	\$ 14,861	\$ 1,975,847
	December 31, 2019				
	Canada	United States	Europe	Capital and Risk Solutions	Total
Assets					
Invested assets	\$ 81,179	\$ 32,768	\$ 48,845	\$ 5,995	\$ 168,787
Goodwill and intangible assets	5,560	1,990	2,834	—	10,384
Other assets	3,953	19,421	8,465	9,135	40,974
Investments on account of segregated fund policyholders	85,612	31,433	113,977	—	231,022
Total assets	176,304	85,612	174,121	15,130	451,167
Proprietary mutual funds and institutional net assets ⁽¹⁾	6,986	257,301	56,261	—	320,548
Total assets under management ⁽¹⁾	183,290	342,913	230,382	15,130	771,715
Other assets under administration ⁽¹⁾	17,118	792,110	48,738	—	857,966
Total assets under administration ⁽¹⁾	\$ 200,408	\$ 1,135,023	\$ 279,120	\$ 15,130	\$ 1,629,681

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Total assets under administration at December 31, 2020 increased by \$346.2 billion to \$2.0 trillion compared to December 31, 2019, primarily due to the MassMutual and Personal Capital acquisitions during 2020 as well as market movement, partially offset by the sale of IPSI in the Europe segment and currency movement. The MassMutual transaction added \$115 billion of total assets, \$132 billion in other assets under administration and \$0.5 billion in proprietary mutual funds and institutional net assets to the U.S. segment at December 31, 2020. The acquisition of Personal Capital added \$21 billion of assets to the U.S. segment's proprietary mutual funds and institutional net assets at December 31, 2020. IPSI's assets as of December 31, 2019 were approximately \$44 billion and were primarily included in other assets under administration. The impact of the sale of IPSI on the Europe segment's other assets under administration was partially offset by the acquisitions of Conexim Advisors Limited and Acumen & Trust DAC during the first quarter of 2020 as well as APT Workplace Pensions Limited and APT Wealth Management Limited during the second quarter of 2020.

For additional details on assets acquired through business acquisitions, refer to "Business Acquisitions and Other Transactions", note 3 in the Company's consolidated financial statements for the period ended December 31, 2020.

INVESTED ASSETS

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. Within the framework of the Company's policies, the Company implements strategies and reviews and adjusts them on an ongoing basis considering liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Management's Discussion and Analysis

Invested asset distribution

	December 31, 2020					
	Canada	United States	Europe	Capital and Risk Solutions	Total	
Bonds						
Government & related	\$ 23,014	\$ 4,006	\$ 20,300	\$ 2,069	\$ 49,389	25%
Corporate & other	30,926	34,332	19,648	3,297	88,203	44
Sub-total bonds	53,940	38,338	39,948	5,366	137,592	69
Mortgages	16,036	5,957	5,746	64	27,803	14
Stocks	10,125	448	427	–	11,000	6
Investment properties	3,626	6	2,638	–	6,270	3
Sub-total portfolio investments	83,727	44,749	48,759	5,430	182,665	92
Cash and cash equivalents	962	4,544	2,032	408	7,946	4
Loans to policyholders	3,043	5,229	2	113	8,387	4
Total invested assets	\$ 87,732	\$ 54,522	\$ 50,793	\$ 5,951	\$ 198,998	100%

	December 31, 2019					
	Canada	United States	Europe	Capital and Risk Solutions	Total	
Bonds						
Government & related	\$ 22,237	\$ 3,698	\$ 19,482	\$ 1,732	\$ 47,149	28%
Corporate & other	27,797	17,808	18,871	3,403	67,879	40
Sub-total bonds	50,034	21,506	38,353	5,135	115,028	68
Mortgages	14,810	3,996	5,388	74	24,268	14
Stocks	9,675	301	399	–	10,375	6
Investment properties	3,130	6	2,751	–	5,887	4
Sub-total portfolio investments	77,649	25,809	46,891	5,209	155,558	92
Cash and cash equivalents	558	1,445	1,952	673	4,628	3
Loans to policyholders	2,972	5,514	2	113	8,601	5
Total invested assets	\$ 81,179	\$ 32,768	\$ 48,845	\$ 5,995	\$ 168,787	100%

At December 31, 2020, total invested assets were \$199.0 billion, an increase of \$30.2 billion from December 31, 2019. The increase in invested assets was primarily related to an increase in corporate bonds from the MassMutual transaction. The overall distribution of assets has not changed significantly and remains heavily weighted to bonds and mortgages.

Bond portfolio – It is the Company's policy to acquire primarily investment grade bonds subject to prudent and well-defined investment policies. Modest investments in below investment grade rated securities may occur while not changing the overall discipline and conservative approach to the investment strategy. The total bond portfolio, including short-term investments, was \$137.6 billion or 69% of invested assets at December 31, 2020

compared to \$115.0 billion or 68% at December 31, 2019. The increase in the bond portfolio, and increase in BBB rated bonds, was primarily related to the MassMutual transaction. Bond fair values also increased due to a decline in bond yields across all geographies during the year. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 75% rated A or higher. There was a comprehensive review and selection process to determine the assets accepted as part of the MassMutual transaction.

Bond credit ratings reflect bond rating agency activity up to December 31, 2020. Management continues to closely monitor bond rating agency activity and general market conditions as the pandemic continues.

Bond portfolio quality

	December 31, 2020		December 31, 2019	
	\$	%	\$	%
AAA	21,820	16%	22,083	19%
AA	35,530	26	33,272	29
A	45,673	33	37,233	32
BBB	33,382	24	21,922	19
BB or lower	1,187	1	518	1
Total	\$ 137,592	100%	\$ 115,028	100%

At December 31, 2020, non-investment grade bonds were \$1.2 billion or 0.9% of the bond portfolio compared to \$0.5 billion or 0.5% of the bond portfolio at December 31, 2019. The increase in non-investment grade bonds was primarily due to bonds acquired through the MassMutual transaction.

Management's Discussion and Analysis

Mortgage portfolio – It is the Company's practice to acquire high quality commercial mortgages meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk-rating system, which it uses in its underwriting and credit monitoring processes for commercial loans. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well diversified across each geographic region, including

specific diversification requirements for non-insured mortgages. Equity release mortgages are originated in the Europe segment following well-defined lending criteria and held in both the Canada and Europe segments. Equity release mortgages are loans provided to people who want to continue living in their homes while accessing some of the underlying equity value in their homes. Loans are typically repaid when the borrower dies or moves into long-term care.

Mortgage portfolio

Mortgage loans by type	December 31, 2020				December 31, 2019	
	Insured	Non-insured	Total		Total	
Single family residential	\$ 530	\$ 1,533	\$ 2,063	7%	\$ 2,069	9%
Multi-family residential	3,255	4,098	7,353	27	7,004	29
Equity release	–	2,020	2,020	7	1,314	5
Commercial	236	16,131	16,367	59	13,881	57
Total	\$ 4,021	\$ 23,782	\$ 27,803	100%	\$ 24,268	100%

The total mortgage portfolio was \$27.8 billion or 14% of invested assets at December 31, 2020, compared to \$24.3 billion or 14% of invested assets at December 31, 2019. The increase in the mortgage portfolio was primarily related to mortgages acquired through the MassMutual transaction and originations of equity release mortgages. Total insured loans were \$4.0 billion or 14% of the mortgage portfolio. The equity release mortgages had a weighted average loan-to-value of 26% (26% at December 31, 2019).

The current market environment has led to a small number of mortgage deferral requests during the year. Management is closely monitoring and evaluating these requests which are currently not material but may impact the Company's performance going forward.

Commercial mortgages

	December 31, 2020				
	Canada	U.S.	Europe	Capital and Risk Solutions	Total
Retail & shopping centres	\$ 3,799	\$ 731	\$ 1,116	\$ 3	\$ 5,649
Office buildings	2,252	1,327	1,369	19	4,967
Industrial	2,516	1,097	774	1	4,388
Other	316	505	542	–	1,363
Total	\$ 8,883	\$ 3,660	\$ 3,801	\$ 23	\$ 16,367

	December 31, 2019				
	Canada	U.S.	Europe	Capital and Risk Solutions	Total
Retail & shopping centres	\$ 3,668	\$ 480	\$ 1,242	\$ 3	\$ 5,393
Office buildings	2,011	656	1,253	20	3,940
Industrial	1,816	787	777	2	3,382
Other	376	275	515	–	1,166
Total	\$ 7,871	\$ 2,198	\$ 3,787	\$ 25	\$ 13,881

Equity portfolio – The total equity portfolio was \$17.3 billion or 9% of invested assets at December 31, 2020 compared to \$16.3 billion or 10% of invested assets at December 31, 2019. The equity portfolio consists of publicly traded stocks, privately held stocks and investment properties. The increase in publicly traded stocks of \$0.4 billion and the increase in privately held stocks of \$0.2 billion were primarily due to purchases. The increase

in investment properties of \$0.4 billion was mainly the result of property acquisitions. During the year, economic conditions caused by the COVID-19 pandemic impacted the global property market and made it difficult to value the properties with the same degree of certainty as usual. As of the fourth quarter of 2020, valuation certainty is selectively returning to certain sectors and geographies of the real estate market.

Management's Discussion and Analysis

Equity portfolio

	December 31, 2020		December 31, 2019	
Equity portfolio by type				
Publicly traded stocks	\$ 10,208	59%	\$ 9,766	60%
Privately held stocks	792	5	609	4
Sub-total	11,000	64	10,375	64
Investment properties	6,270	36	5,887	36
Total	\$ 17,270	100%	\$ 16,262	100%

Investment properties ⁽¹⁾

	December 31, 2020				December 31, 2019			
	Canada	U.S.	Europe	Total	Canada	U.S.	Europe	Total
Office buildings	\$ 1,328	\$ —	\$ 637	\$ 1,965	\$ 1,523	\$ —	\$ 664	\$ 2,187
Industrial	861	—	812	1,673	519	—	773	1,292
Retail	198	—	814	1,012	215	—	945	1,160
Other	1,239	6	375	1,620	873	6	369	1,248
Total	\$ 3,626	\$ 6	\$ 2,638	\$ 6,270	\$ 3,130	\$ 6	\$ 2,751	\$ 5,887

(1) The Capital and Risk Solutions segment does not hold any investment properties.

Impaired investments – Impaired investments include bonds in default, mortgages in default or in the process of foreclosure, investment properties acquired by foreclosure and other assets

where management no longer has reasonable assurance that all contractual cash flows will be received.

Impaired investments

	December 31, 2020				December 31, 2019			
	Gross amount	Impairment recovery	Impairment provision	Carrying amount	Gross amount	Impairment recovery	Impairment provision	Carrying amount
Fair value through profit or loss	\$ 23	\$ 2	\$ (5)	\$ 20	\$ 19	\$ 2	\$ —	\$ 21
Available-for-sale	16	1	—	17	16	—	—	16
Loans and receivables	80	—	(57)	23	80	—	(51)	29
Total	\$ 119	\$ 3	\$ (62)	\$ 60	\$ 115	\$ 2	\$ (51)	\$ 66

The gross amount of impaired investments totaled \$119 million or 0.1% of invested assets at December 31, 2020 compared to \$115 million or 0.1% at December 31, 2019, a net increase of \$4 million.

The impairment recovery at December 31, 2020 was \$3 million, which reflects the improvement in market values of certain investments from the date at which they became impaired. The impairment provision at December 31, 2020 was \$62 million compared to \$51 million at December 31, 2019. The increase was primarily due to impairment charges on U.K. mortgages during the year. While the fair values have improved on certain impaired assets, these assets remain impaired based on other impairment factors as described in the "Summary of Critical Accounting Estimates" section of this document and in note 2 of the Company's December 31, 2020 annual consolidated financial statements.

Provision for future credit losses

As a component of insurance contract liabilities, the total actuarial provision for future credit losses is determined consistent with the Canadian Institute of Actuaries' Standards of Practice and includes provisions for adverse deviation. The provisions reflect the current credit ratings and potential future rating migration. No provision is held for government or government related debt rated A+ or higher where the issuer is monetarily sovereign.

At December 31, 2020, the total actuarial provision for future credit losses in insurance contract liabilities was \$3,368 million compared to \$2,575 million at December 31, 2019, an increase of \$793 million. The increase was primarily due to the acquisition of the MassMutual retirement services business.

The aggregate of impairment provisions of \$62 million (\$51 million at December 31, 2019) and actuarial provisions for future credit losses in insurance contract liabilities of \$3,368 million (\$2,575 million at December 31, 2019) represents 1.9% of bond and mortgage assets, including funds held by ceding insurers, at December 31, 2020 (1.8% at December 31, 2019).

Management's Discussion and Analysis

Oil and Gas Sector Related Exposures

Holdings of Bonds, Mortgages and Investment Properties in the Oil and Gas Sector⁽¹⁾

	December 31, 2020					December 31, 2019
	Canada	U.S.	Europe	Capital and Risk Solutions	Total	Total
Bonds ^{(1) (2) (3)}	\$ 2,453	\$ 2,822	\$ 734	\$ 521	\$ 6,530	\$ 4,407
Mortgages ⁽⁴⁾	1,808	463	37	—	2,308	2,389
Investment properties	447	—	—	—	447	456
Total	\$ 4,708	\$ 3,285	\$ 771	\$ 521	\$ 9,285	\$ 7,252

(1) Oil and Gas sector bond holdings are a sub-category of certain industry sectors presented in note 8(a)(ii) in the Company's December 31, 2020 Annual consolidated financial statements.

(2) Amortized cost of these bonds is \$6,047 million at December 31, 2020 and \$4,133 million at December 31, 2019.

(3) Includes certain funds held by ceding insurers with a carrying value of \$595 million and an amortized cost of \$539 million at December 31, 2020.

(4) Includes \$554 million of insured mortgages at December 31, 2020 and \$615 million at December 31, 2019.

At December 31, 2020, the Company's holdings of oil and gas sector related investments, including funds held by ceding insurers, were \$9.3 billion (\$7.3 billion at December 31, 2019). The increase of \$2.0 billion from December 31, 2019 was primarily due to bonds acquired through the MassMutual transaction and net bond purchases. Holdings include direct exposure of bond holdings of \$6.5 billion (\$4.4 billion at December 31, 2019), or 3.0% of invested assets including funds held by ceding insurers, and indirect exposure of commercial mortgages and investment properties of \$2.8 billion (\$2.9 billion at December 31, 2019), or 1.3% of invested assets including funds held by ceding insurers.

At December 31, 2020, the Company's oil and gas sector related bond holdings were well diversified across multiple sub-sectors and were high quality with approximately 99% rated investment grade (100% at December 31, 2019). 61% of the portfolio was invested in Midstream and Refining entities and 39% in Integrated, Independent and Oil Field Services and Government Agency entities.

In addition, the Company's indirect exposure to oil and gas sector related commercial mortgages and investment properties were

concentrated in certain geographic regions where the economy is more dependent upon the oil and gas sector and were well diversified across property type – Multi-family (37%), Industrial/Other (27%), Office (17%) and Retail (19%). 82% of the total portfolio was concentrated in the province of Alberta, with the remainder primarily in the state of Texas. The weighted average loan-to-value ratio of the commercial mortgages was 71% at December 31, 2020 (66% at December 31, 2019).

In March 2020, Moody's Investors Service and S&P Global Ratings revised their forecasts for crude oil downward for the remainder of 2020, due to decreased demand resulting from the COVID-19 pandemic. In June 2020, Moody's Investors Service further reduced its short and medium-term forecasts for crude oil downward due to potential longer lasting impacts to global demand for oil. Hydrocarbon price assumptions are a key input into cash flow forecasts and the resulting issuer and sector credit risk profile, particularly for the Integrated, Independent and Oil Field Services sub-sectors. Increases to provisions for future credit losses as a result of ratings downgrades and impairment charges specific to energy sector holdings were negligible in the fourth quarter of 2020.

United Kingdom Property Related Exposures

Holdings of United Kingdom Mortgages and Investment Properties

	December 31, 2020						December 31, 2019
	Multi-family residential	Retail & shopping centres	Office buildings	Industrial	Equity release	Other	Total
Mortgages	\$ 719	\$ 1,433	\$ 1,449	\$ 940	\$ 2,020	\$ 541	\$ 7,102
Investment properties	—	801	637	812	—	339	2,589
Total	\$ 719	\$ 2,234	\$ 2,086	\$ 1,752	\$ 2,020	\$ 880	\$ 9,691

At December 31, 2020, the Company's holdings of property related investments in the U.K. were \$9.7 billion, or 4.9% of invested assets compared to \$8.9 billion at December 31, 2019. The increase from December 31, 2019 was primarily due to originations of equity release mortgages. Holdings in Central London were \$3.1 billion (\$2.8 billion at December 31, 2019) or 1.6% of invested assets, while holdings in other regions of the U.K. were \$6.6 billion (\$6.1 billion at December 31, 2019) or 3.3% of invested assets. These holdings were well diversified across property type – Retail (23%), Industrial/Other (27%), Office (22%), Equity release (21%)

and Multi-family (7%). Of the Retail sector holdings, 55% relate to warehouse/distribution and other retail, 23% relate to shopping centres and department stores and 22% relate to grocery retail sub-categories. The weighted average loan-to-value ratio of the mortgages was 51% (51% at December 31, 2019) and the weighted average debt-service coverage ratio was 2.6 at December 31, 2020 (2.7 at December 31, 2019). At December 31, 2020, the weighted average mortgage and property lease term exceeded 11 years (11 years at December 31, 2019).

DERIVATIVE FINANCIAL INSTRUMENTS

There were no major changes to the Company's policies and procedures with respect to the use of derivative financial instruments in 2020. The Company's derivative transactions are generally governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements, which provide for legally enforceable set-off and close-out netting of exposure to specific counterparties in the event of an early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from a counterparty against payables to the same counterparty, in the same legal entity, arising out of all included transactions. The Company's ISDA Master Agreements may include Credit Support Annex provisions, which require both the pledging and accepting of collateral in connection with its derivative transactions.

At December 31, 2020, total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$211 million (\$156 million at December 31, 2019) and pledged on derivative liabilities was \$560 million (\$634 million at December 31, 2019). Collateral received on derivative assets increased and collateral pledged on derivative liabilities decreased in 2020, primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

During the twelve month period ended December 31, 2020, the outstanding notional amount of derivative contracts increased by \$8.5 billion to \$30.1 billion, primarily due to regular hedging activities, an increase in forward settling mortgage backed security transactions ("to-be-announced-securities") and an increase in foreign exchange forwards related to the MassMutual transaction.

The Company's exposure to derivative counterparty credit risk, which reflects the current fair value of those instruments in a gain position, increased to \$829 million at December 31, 2020 from \$451 million at December 31, 2019. The increase was primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars. There were no changes to derivative counterparty ratings during the fourth quarter of 2020 and all had investment grade ratings as of December 31, 2020. Refer to "Financial Instruments Risk Management", note 8 in the Company's December 31, 2020 annual consolidated financial statements for details of the Company's derivative counterparties' ratings.

GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets

	December 31	
	2020	2019
Goodwill	\$10,106	\$ 6,505
Indefinite life intangible assets	2,798	2,704
Finite life intangible assets	1,487	1,175
Total	\$14,391	\$ 10,384

The Company's goodwill and intangible assets relate primarily to its acquisitions of London Life, Canada Life, Putnam, Irish Life, Personal Capital and MassMutual. Goodwill and intangible assets of \$14.4 billion at December 31, 2020 increased by \$4.0 billion compared to December 31, 2019. Goodwill increased by \$3.6 billion, indefinite life intangible assets increased by \$0.1 billion and finite life intangible assets increased by \$0.3 billion primarily due to the acquisitions of Personal Capital and the retirement services business of MassMutual. As at December 31, 2020, the accounting for the acquisition is not finalized pending completion of a comprehensive valuation of the net assets acquired. The December 31, 2020 balances reflect management's current best estimate of the purchase price allocation. Final valuation of the assets acquired and liabilities assumed and the completion of the purchase price allocation are expected to occur during 2021. As at December 31, 2020, provisional amounts for intangible assets have not been separately identified and valued within the assets of the purchase price allocation pending completion of the valuation exercise.

IFRS principles require the Company to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to perform an impairment test on goodwill and indefinite life intangible assets at least 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. Finite life intangible assets are reviewed annually to determine if there are indications of impairment and assess whether the amortization periods and methods are appropriate. In the fourth quarter of 2020, the Company conducted its annual impairment testing of goodwill and intangible assets based on September 30, 2020 asset balances. It was determined that the recoverable amounts of cash generating unit groupings for goodwill and cash generating units for intangible assets were in excess of their carrying values and there was no evidence of significant impairment. Recoverable amount is based on fair value less cost of disposal.

Refer to note 10 in the Company's December 31, 2020 annual consolidated financial statements for further details of the Company's goodwill and intangible assets. Also, refer to the "Summary of Critical Accounting Estimates" section of this document for details on impairment testing of these assets.

OTHER GENERAL FUND ASSETS

Other general fund assets

	December 31	
	2020	2019
Reinsurance assets	\$ 22,121	\$ 20,707
Funds held by ceding insurers	18,383	8,714
Premiums in course of collection, accounts and interest receivable	6,102	5,881
Other assets	3,347	3,110
Owner occupied properties	741	727
Deferred tax assets	975	693
Fixed assets	426	455
Derivative financial instruments	829	451
Current income taxes	145	236
Total	\$ 53,069	\$ 40,974

Management's Discussion and Analysis

Total other general fund assets at December 31, 2020 were \$53.1 billion, an increase of \$12.1 billion from December 31, 2019. The increase was primarily due to an increase of \$9.7 billion in funds held by ceding insurers, primarily due to the acquisition of the MassMutual retirement services business and an increase of \$1.4 billion in reinsurance assets.

Other assets comprise several items including prepaid expenses and accounts receivable. Refer to note 12 in the Company's December 31, 2020 annual consolidated financial statements for a breakdown of other assets.

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

Segregated funds

	December 31	
	2020	2019
Stock and units in unit trusts	\$112,675	\$104,330
Mutual funds	127,577	55,779
Bonds	65,338	44,973
Investment properties	12,430	12,986
Cash and other	11,836	9,137
Mortgage loans	2,686	2,670
Sub-total	\$332,542	\$229,875
Non-controlling mutual funds interest	1,490	1,147
Total	\$334,032	\$231,022

Investments on account of segregated fund policyholders, which are measured at fair value, increased by \$103.0 billion to \$334.0 billion at December 31, 2020 compared to December 31, 2019. The increase was primarily due to an increase of \$84.8 billion related to the acquisition of the MassMutual retirement services business, the combined impact of market value gains and investment income of \$12.1 billion and the impact of currency movement of \$3.9 billion.

PROPRIETARY MUTUAL FUNDS

Proprietary mutual funds and institutional assets ⁽¹⁾

	December 31	
	2020	2019
Mutual funds ⁽¹⁾		
Blend equity	\$ 23,478	\$ 23,945
Growth equity	23,523	19,405
Equity value	24,341	24,732
Fixed-income	52,009	53,613
Money market	317	187
Empower Funds ⁽²⁾	42,514	22,362
Sub-total	\$166,182	\$144,244
Institutional assets ⁽¹⁾		
Equity	\$112,439	\$108,229
Fixed-income	63,681	59,112
Other	8,641	8,963
Sub-total	\$184,761	\$176,304
Total proprietary mutual funds and institutional assets ⁽¹⁾	\$350,943	\$320,548

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) At December 31, 2020, Empower funds exclude \$21.8 billion of Putnam managed funds (\$17.9 billion at December 31, 2019), which are included in the categories above.

At December 31, 2020, total proprietary mutual funds and institutional assets include \$284.3 billion at Putnam and GWL&A, \$53.8 billion at Irish Life and \$7.3 billion at Quadrus Investment Services Ltd (Quadrus). Proprietary mutual funds and institutional assets under management increased by \$30.4 billion, primarily due to market movement and net cash inflows, partially offset by the impact of currency movement. GWL&A includes proprietary mutual funds related to Empower Retirement including assets acquired in the Personal Capital and MassMutual transactions.

LIABILITIES

Total liabilities

	December 31	
	2020	2019
Insurance and investment contract liabilities	\$218,047	\$176,177
Other general fund liabilities	21,396	18,425
Investment and insurance contracts on account of segregated fund policyholders	334,032	231,022
Total	\$573,475	\$425,624

Total liabilities increased by \$147.9 billion to \$573.5 billion at December 31, 2020 from December 31, 2019.

Insurance and investment contract liabilities increased by \$41.9 billion, primarily due to an increase of \$27.3 billion from the acquisition of the MassMutual retirement services business, the impact of new business and fair value adjustments. Investment and insurance contracts on account of segregated fund policyholders increased by \$103.0 billion, primarily due to an increase of \$84.8 billion from the acquisition of the MassMutual retirement services business, the combined impact of market value gains and investment income of \$12.1 billion and the impact of currency movement of \$3.9 billion. Other general fund liabilities increased by \$3.0 billion, primarily due to the net issuance of debentures of \$3.7 billion, partially offset by a decrease in accounts payable and deferred tax liabilities.

Insurance and investment contract liabilities represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in-force. Insurance and investment contract liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. Also, refer to the "Summary of Critical Accounting Estimates" section of this document for further details.

Management's Discussion and Analysis

Assets supporting insurance and investment contract liabilities

	Participating Account	Non-Participating				Total
		Canada	United States	Europe	Capital and Risk Solutions	
December 31, 2020						
Bonds	\$ 27,768	\$ 21,511	\$ 31,631	\$ 34,941	\$ 2,365	\$ 118,216
Mortgage loans	11,150	4,498	4,586	5,746	52	26,032
Stocks	6,227	2,789	46	332	—	9,394
Investment properties	2,992	360	—	2,536	—	5,888
Other assets ⁽¹⁾	10,127	6,291	29,440	4,533	8,126	58,517
Total assets	\$ 58,264	\$ 35,449	\$ 65,703	\$ 48,088	\$ 10,543	\$ 218,047
Total insurance and investment contract liabilities	\$ 58,264	\$ 35,449	\$ 65,703	\$ 48,088	\$ 10,543	\$ 218,047
December 31, 2019						
Bonds	\$ 25,328	\$ 20,270	\$ 14,311	\$ 33,062	\$ 2,484	\$ 95,455
Mortgage loans	10,301	4,111	2,678	5,387	55	22,532
Stocks	6,205	2,237	—	299	—	8,741
Investment properties	2,484	407	—	2,672	—	5,563
Other assets ⁽¹⁾	10,301	5,643	15,371	4,069	8,502	43,886
Total assets	\$ 54,619	\$ 32,668	\$ 32,360	\$ 45,489	\$ 11,041	\$ 176,177
Total insurance and investment contract liabilities	\$ 54,619	\$ 32,668	\$ 32,360	\$ 45,489	\$ 11,041	\$ 176,177

(1) Other assets include reinsurance assets, premiums in the course of collection, interest due and accrued, other investment receivables, deferred acquisition costs, accounts receivable, current income taxes and prepaid expenses. Reinsurance assets include assets recognized as a result of the indemnity reinsurance agreement with Protective Life.

Asset and liability cash flows are matched within established limits to minimize the financial effects of a shift in interest rates and mitigate the changes in the Company's financial position due to interest rate volatility.

OTHER GENERAL FUND LIABILITIES

Other general fund liabilities

	December 31	
	2020	2019
Debentures and other debt instruments	\$ 9,693	\$ 5,993
Other liabilities	5,147	4,689
Accounts payable	2,698	3,352
Derivative financial instruments	1,221	1,381
Funds held under reinsurance contracts	1,648	1,433
Deferred tax liabilities	646	1,116
Current income taxes	343	461
Total	\$ 21,396	\$ 18,425

Total other general fund liabilities at December 31, 2020 were \$21.4 billion, an increase of \$3.0 billion from December 31, 2019, primarily due to an increase of \$3.7 billion in debentures and other debt instruments driven by net issuances. The increase was partially offset by a decrease of \$0.7 billion in accounts payable, and a decrease of \$0.5 billion in deferred tax liabilities.

Other liabilities of \$5.1 billion include pension and other post-employment benefits, lease liabilities, deferred income reserve, bank overdraft and other liability balances. Refer to note 17 in the Company's December 31, 2020 annual consolidated financial statements for a breakdown of the other liabilities balance and note 15 in the Company's December 31, 2020 annual consolidated financial statements for details of the debentures and other debt instruments.

Segregated Fund and Variable Annuity Guarantees

The Company offers retail segregated fund products, unitized with profits (UWP) products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds.

In Canada, the Company offers individual segregated fund products through Canada Life (offered through Great-West Life, London Life and Canada Life prior to amalgamation on January 1, 2020). These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits (GMAB). Prior to November 4, 2020, the Company also offered lifetime guaranteed minimum withdrawal benefits (GMWB) products in Canada.

For a certain generation of products, the guarantees in connection with the Canadian individual segregated fund businesses are reinsured to London Reinsurance Group Inc. (LRG), a subsidiary of Canada Life. This does not include the guarantees on newer Canadian products. LRG also has a closed portfolio of GMAB and guaranteed minimum income benefits (GMIB) that it has reinsured from other U.S. and Canadian life insurance and reinsurance companies.

In Europe, the Company offers UWP products in Germany and unit-linked products with investment guarantees in Ireland. These products are similar to segregated fund products but include minimum credited interest rates and pooling of policyholders' funds. The Company also offers a GMWB product in Germany.

In the U.S., the Company offers group variable annuities with GMWB and group standalone GMDB products which mainly provide return of premium on death.

Management's Discussion and Analysis

The GMWB products offered by the Company in the U.S. and Germany, and previously offered in Canada and Ireland, provide the policyholder with a guaranteed minimum level of annual income for life. The minimum level of income may increase depending upon the level of growth in the market value of the policyholder's funds. Where the market value of the policyholder's funds is ultimately insufficient to meet the level of guarantee purchased by the policyholder, the Company is obligated to make up the shortfall.

These products involve cash flows of which the magnitude and timing are uncertain and are dependent on the level of equity and fixed-income market returns, interest rates, currency markets, market volatility, policyholder behaviour and policyholder longevity.

The Company has a hedging program in place to manage certain risks associated with options embedded in its GMWB products. The program methodology quantifies both the embedded option value and its sensitivity to movements in equity markets, currency markets and interest rates. Equity derivative instruments, currency derivative instruments and interest rate derivative instruments are used to mitigate changes in the embedded option value attributable to movements in equity markets, currency markets and interest rates respectively. The hedging program, by its nature, requires continuous monitoring and rebalancing to avoid over or

under hedged positions. Periods of heightened market volatility will increase the frequency of hedge rebalancing.

By their nature, certain risks associated with the GMWB product either cannot be hedged or cannot be hedged on a cost-effective basis. These risks include policyholder behaviour, policyholder longevity, basis risk and market volatility. Consequently, the hedging program will not mitigate all risks to the Company associated with the GMWB products and may expose the Company to additional risks including the operational risk associated with the reliance upon sophisticated models, and counterparty credit risk associated with the use of derivative instruments.

Other risk management processes are in place aimed at appropriately limiting the Company's exposure to the risks it is not hedging or are otherwise inherent in its GMWB hedging program. In particular, the GMWB product has been designed with specific regard to limiting policyholder anti-selection, and the array of investment funds available to policyholders has been determined with a view to minimizing underlying basis risk.

Certain GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2020, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was \$3,375 million (\$3,332 million at December 31, 2019).

Segregated fund and variable annuity guarantee exposure

	Market Value	December 31, 2020 Investment deficiency by benefit type			
		Income	Maturity	Death	Total ⁽¹⁾
Canada	\$ 33,429	\$ 3	\$ 14	\$ 36	\$ 36
United States	20,232	1	—	22	23
Europe	10,770	7	—	919	919
Capital and Risk Solutions ⁽²⁾	859	339	—	—	339
Total	\$ 65,290	\$ 350	\$ 14	\$ 977	\$ 1,317

(1) A policy can only receive a payout from one of the three trigger events (income election, maturity or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on December 31, 2020.

(2) Capital and Risk Solutions exposure is to markets in Canada and the U.S.

Investment deficiency at December 31, 2020 increased by \$332 million to \$1,317 million compared to December 31, 2019. The increase was primarily due to a year-to-date decrease in Germany UWP asset market values relative to the guarantees and a higher value of LRG GMIB annuitization benefit guarantees. The investment deficiency measures the point-in-time exposure to a trigger event (i.e., income election, maturity or death) assuming it occurred on December 31, 2020 and does not include the impact of the Company's hedging program for GMWB products. The actual cost to the Company will depend on the trigger event

having occurred and the market values at that time. The actual claims before tax associated with these guarantees were nil in-quarter (\$6 million for the fourth quarter of 2019) and \$20 million year-to-date (\$21 million year-to-date for 2019), with the majority arising in the Capital and Risk Solutions segment related to the LRG GMIB legacy block of business. The market value increased by \$11,484 million to \$65,290 million compared to December 31, 2019. The increase was primarily due to the MassMutual transaction in the fourth quarter of 2020 and the year-to-date increase in equity markets.

LIFECO CAPITAL STRUCTURE

In establishing the appropriate mix of capital required to support the operations of the Company and its subsidiaries, management utilizes a variety of debt, equity and other hybrid instruments considering both the short and long-term capital needs of the Company.

DEBENTURES AND OTHER DEBT INSTRUMENTS

At December 31, 2020, debentures and other debt instruments increased by \$3,700 million to \$9,693 million compared to December 31, 2019.

On May 14, 2020, the Company issued \$600 million aggregate principal amount 2.379% debentures at par, maturing on May 14, 2030.

On July 8, 2020, the Company issued \$250 million aggregate principal amount 2.981% debentures at par, maturing on July 8, 2050.

On July 13, 2020, the Company announced the reopening of the offering of 2.981% debentures due July 8, 2050 and on July 15, 2020 issued an additional \$250 million aggregate principal amount. Upon issuance of the July 15, 2020 debentures, \$500 million aggregate principal amount of 2050 debentures were issued and outstanding.

On August 12, 2020, Great-West Lifeco U.S. Finance 2020, LP, a subsidiary of the Company, issued \$663 million (US\$500 million) aggregate principal amount of 0.904% senior notes due August 12, 2025.

On August 13, 2020, the Company repaid the principal amount of its maturing 4.65% \$500 million debentures, together with accrued interest.

On September 17, 2020, Empower Finance 2020, LP, a subsidiary of the Company, issued \$526 million (US\$400 million) aggregate principal amount of 1.357% senior notes due September 17, 2027, \$526 million (US\$400 million) aggregate principal amount of 1.776% senior notes due March 17, 2031 and \$921 million (US\$700 million) aggregate principal amount of 3.075% senior notes due September 17, 2051.

On November 2, 2020, Great-West Lifeco U.S. LLC, a subsidiary of the Company, established a 1-year \$635 million (US\$500 million) revolving credit facility with interest on the drawn balance equal to the LIBOR rate plus 1.0%. The facility was fully drawn as at December 31, 2020 as part of the MassMutual retirement services business acquisition financing plan. The Company intends to pay down the drawn amount during 2021.

Refer to note 15 in the Company's December 31, 2020 annual consolidated financial statements for further details of the Company's debentures and other debt instruments.

CAPITAL TRUST SECURITIES

At December 31, 2020, the Company had \$150 million principal outstanding of Canada Life Capital Trust Securities – Series B (CLiCS – Series B). Included in the Company's invested assets at December 31, 2020 were CLiCS – Series B with a fair value of \$55 million and principal value of \$37 million (fair value of \$53 million at December 31, 2019).

Each holder of the CLiCS – Series B is entitled to receive a semi-annual non-cumulative fixed cash distribution of \$37.645 per CLiCS – Series B, representing an annual yield of 7.529% payable out of Canada Life Capital Trust's (CLCT) distributable funds. Subject to regulatory approval, CLCT may redeem the CLiCS – Series B, in whole or in part, at any time and the CLiCS – Series B are callable at par on June 30, 2032.

EQUITY

Share capital outstanding at December 31, 2020 was \$8,365 million, which comprises \$5,651 million of common shares, \$2,464 million of fixed rate First Preferred Shares and \$250 million of 5-year rate reset First Preferred Shares.

Common shares

At December 31, 2020, the Company had 927,853,106 common shares outstanding with a stated value of \$5,651 million compared to 927,281,186 common shares with a stated value of \$5,633 million at December 31, 2019.

The Company commenced a normal course issuer bid (NCIB) on January 22, 2020 for one year to purchase and cancel up to 20,000,000 of its common shares at market prices in order to mitigate the dilutive effect of stock options granted under the Company's Stock Option Plan and for other capital management purposes. During the twelve months ended December 31, 2020, the Company did not purchase any common shares under the current NCIB (2019 - 2,000,000). As a result of the COVID-19 pandemic impacts on markets, on March 13, 2020, OSFI set expectations that Canadian banks and insurers should suspend share buybacks until further notice. Subsequent to December 31, 2020, on January 25, 2021, the Company announced a normal course issuer bid (NCIB) commencing January 27, 2021 and terminating January 26, 2022 to purchase for cancellation up to but not more than 20,000,000 of its common shares at market prices. The Company does not currently intend to engage in share repurchases that reduce its outstanding shares while OSFI maintains its expectation that the institutions it regulates suspend share buybacks. However, the Company may use the renewed NCIB for other purposes permitted by the Toronto Stock Exchange or, when OSFI no longer maintains its expectation or circumstances otherwise change, to acquire common shares to mitigate the dilutive effect of issuing shares under the Company's Stock Option Plan and for other capital management purposes.

Preferred shares

At December 31, 2020, the Company had 11 series of fixed rate First Preferred Shares and one series of 5-year rate reset First Preferred Shares outstanding with aggregate stated values of \$2,464 million and \$250 million, respectively.

On December 17, 2020, the Company announced that holders of 59,830 Series N Shares elected to convert their shares into Series O Shares, and that holders of 547,303 Series O Shares elected to convert their shares into Series N Shares. After taking into account all shares tendered for conversion, the Company determined that there would be less than 1,000,000 Series O Shares outstanding on December 31, 2020. As a result and in accordance with the terms and conditions attached to the shares, no Series N Shares were converted into Series O Shares and all remaining Series O Shares were automatically converted into Series N Shares on a one-for-one basis on December 31, 2020. Following the automatic conversion, Lifeco has 10,000,000 Series N Shares and no Series O Shares issued and outstanding. The Series N Shares carry an annual fixed non-cumulative dividend rate of 1.749% up to but excluding December 31, 2025 (2.176% up to but excluding December 31, 2020) and are redeemable at the option of the Company on December 31, 2025 and on December 31 every five years thereafter for \$25.00 per share plus all declared and unpaid dividends up to but excluding the date of redemption. Prior to conversion, the Series O Shares carried a floating non-cumulative dividend rate equal to the relevant Government of Canada Treasury Bill rate plus 1.30%.

Management's Discussion and Analysis

The terms and conditions of the outstanding First Preferred Shares are set out in the table below:

	Series F	Series G	Series H	Great-West Lifeco Inc.		Series L	Series M	Series N
General Type	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	5-Year Rate Reset
Cumulative/Non-Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Date Issued	Jul 10, 2003	Sep 14, 2004	Aug 12, 2005	Apr 12, 2006	Oct 2, 2009	Mar 4, 2010	Nov 23, 2010	
Shares Outstanding	7,740,032	12,000,000	12,000,000	12,000,000	6,800,000	6,000,000	10,000,000	
Amount Outstanding (Par)	\$193,500,800	\$300,000,000	\$300,000,000	\$300,000,000	\$170,000,000	\$150,000,000	\$250,000,000	
Yield	5.90%	5.20%	4.85%	4.50%	5.65%	5.80%	1.749%	
Earliest Issuer Redemption Date	Sep 30, 2008	Dec 31, 2009	Sep 30, 2010	Jun 30, 2011	Dec 31, 2014	Mar 31, 2015	Dec 31, 2020	

	Series P	Series Q	Great-West Lifeco Inc.		Series S	Series T
General Type	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate	Fixed Rate
Cumulative/Non-Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Date Issued	Feb 22, 2012	Jul 6, 2012	Oct 11, 2012	May 22, 2014	May 18, 2017	
Shares Outstanding	10,000,000	8,000,000	8,000,000	8,000,000	8,000,000	
Amount Outstanding (Par)	\$250,000,000	\$200,000,000	\$200,000,000	\$200,000,000	\$200,000,000	
Yield	5.40%	5.15%	4.80%	5.25%	5.15%	
Earliest Issuer Redemption Date	March 31, 2017	Sep 30, 2017	Dec 31, 2017	Jun 30, 2019	Jun 30, 2022	

The terms and conditions of the First Preferred Shares do not allow the holder to convert to common shares of the Company or to otherwise cause the Company to redeem the shares. Preferred shares issued by the Company are commonly referred to as perpetual and represent a form of financing that does not have a fixed term.

Non-Controlling Interests

The Company's non-controlling interests include participating account surplus in subsidiaries and non-controlling interests in subsidiaries. Refer to note 18 in the Company's December 31, 2020 annual consolidated financial statements for further details of the Company's non-controlling interests.

Non-controlling interests

	December 31	
	2020	2019
Participating account surplus in subsidiaries:		
Canada Life	\$ 2,858	\$ 284
GWL&A	13	14
Great-West Life	—	595
London Life	—	1,866
	<u>\$ 2,871</u>	<u>\$ 2,759</u>
Non-controlling interests in subsidiaries	\$ 116	\$ 107

At December 31, 2020, the carrying value of non-controlling interests increased by \$121 million to \$2,987 million compared to December 31, 2019. For the twelve months ended December 31, 2020, net earnings attributable to participating account before policyholder dividends were \$1,430 million and policyholder dividends were \$1,364 million.

Effective January 1, 2020, following the amalgamation of Great-West Life, London Life and Canada Life, non-controlling interests attributable to participating account surplus previously recorded in the Great-West Life, London Life and Canada Life are recorded in the amalgamated company, Canada Life.

LIQUIDITY AND CAPITAL MANAGEMENT AND ADEQUACY

LIQUIDITY

The Company's liquidity requirements are largely self-funded, with short-term obligations being met by internal funds and maintaining levels of liquid investments adequate to meet anticipated liquidity needs. The Company holds cash, cash equivalents and short-term bonds at the Lifeco holding company level and with the Lifeco consolidated subsidiary companies. At December 31, 2020, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of \$11.2 billion (\$8.9 billion at December 31, 2019) and other liquid assets and marketable securities of \$100.2 billion (\$86.6 billion at December 31, 2019). Included in the cash, cash equivalents and short-term bonds at December 31, 2020 was \$0.9 billion (\$0.7 billion at December 31, 2019) held at the Lifeco holding company level which includes cash at Great-West Lifeco U.S. LLC, the Company's U.S. holding company. Cash and cash equivalents and short-term bonds held increased as a result of debenture issuances totaling \$1.1 billion and \$2.6 billion (US\$2 billion) of senior notes, partially offset by the acquisitions of Personal Capital and MassMutual's retirement services business and the repayment of \$500 million of debentures that matured on August 13, 2020. In addition, the Company maintains committed lines of credit with Canadian chartered banks for potential unanticipated liquidity needs, if required.

The Company does not have a formal common shareholder dividend policy. Dividends on outstanding common shares of the Company are declared and paid at the sole discretion of the Board of Directors of the Company. The decision to declare a dividend on the common shares of the Company takes into account a variety of factors including the level of earnings, adequacy of capital and availability of cash resources.

As a holding company, the Company's ability to pay dividends and, in part, its ability to deploy capital is dependent upon the Company receiving dividends from its operating subsidiaries. The Company's operating subsidiaries are subject to regulation in a number of jurisdictions, each of which maintains its own regime for determining the amount of capital that must be held in connection with the different businesses carried on by the operating subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the operating subsidiaries to pay dividends to the Company. Refer to "Risk Management – COVID-19 Pandemic Impact, Government and Regulatory Responses" section for additional discussion of the impact of the current environment.

CASH FLOWS

Cash flows

	For the three months ended December 31		For the twelve months ended December 31	
	2020	2019	2020	2019
Cash flows relating to the following activities:				
Operations	\$ 1,896	\$ 1,291	\$ 9,610	\$ 6,110
Financing	381	(781)	2,010	(3,981)
Investment	464	224	(8,202)	(1,539)
	2,741	734	3,418	590
Effects of changes in exchange rates on cash and cash equivalents	(167)	41	(100)	(130)
Increase (decrease) in cash and cash equivalents in the period	2,574	775	3,318	460
Cash and cash equivalents, beginning of period	5,372	3,853	4,628	4,168
Cash and cash equivalents, end of period	\$ 7,946	\$ 4,628	\$ 7,946	\$ 4,628

The principal source of funds for the Company on a consolidated basis is cash provided by operating activities, including premium income, net investment income and fee income. These funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements. Cash flows related to financing activities include the issuance and repayment of capital instruments and associated dividends and interest payments.

In the fourth quarter of 2020, cash and cash equivalents increased by \$2.6 billion from September 30, 2020. Cash flows provided by operations during the fourth quarter of 2020 were \$1.9 billion, an increase of \$0.6 billion compared to the fourth quarter of 2019. Cash flows used in financing were \$0.4 billion, primarily used for the payment of dividends to common and preferred shareholders of \$0.4 billion, partially offset by an increase in line of credit of subsidiary of \$0.8 billion. For the three months ended December 31, 2020, cash inflows from investment activities related to net disposals of \$0.5 billion, primarily reflecting the net proceeds from the sale of GLC and net dispositions of investment assets, partially offset by the acquisition of the retirement services business of MassMutual.

Management's Discussion and Analysis

For the twelve months ended December 31, 2020, cash and cash equivalents increased by \$3.3 billion from December 31, 2019. Cash flows provided by operations were \$9.6 billion, an increase of \$3.5 billion compared to the same period in 2019. Included in the cash flows provided by operations for the twelve months ended December 31, 2019 was \$1.0 billion of cash received during the second quarter of 2019 as a result of the indemnity reinsurance agreement with Protective Life. Cash flows used in financing of \$2.0 billion were primarily provided by a net issuance of debentures and senior notes of \$3.2 billion and an increase in line of credit of subsidiary of \$0.5 billion, partially offset by the

payment of dividends to common and preferred shareholders of \$1.8 billion. In the first quarter of 2020, the Company increased the quarterly dividend to common shareholders from \$0.413 per common share to \$0.438 per common share. For the twelve months ended December 31, 2020, cash outflows of \$8.2 billion were used by the Company to acquire investment assets and for the acquisitions of Personal Capital and the retirement services business of MassMutual, partially offset by the net proceeds from the sale of GLC in the fourth quarter and the sale of IPSI in the third quarter of 2020.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations

At December 31, 2020	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
1) Debentures and other debt instruments	\$ 8,639	\$ —	\$ —	\$ 775	\$ —	\$ 635	\$ 7,229
2) Lease obligations	734	88	78	67	60	54	387
3) Purchase obligations	261	113	65	23	13	10	37
4) Credit-related arrangements							
(a) Contractual commitments	1,990	1,874	95	21	—	—	—
(b) Letters of credit	see note 4(b) below						
5) Pension contributions	316	316	—	—	—	—	—
Total contractual obligations	\$ 11,940	\$ 2,391	\$ 238	\$ 886	\$ 73	\$ 699	\$ 7,653

(1) Refer to note 15 in the Company's December 31, 2020 annual consolidated financial statements. Excluded from debentures and other debt instruments are unamortized transaction costs.

(2) For a further description of the Company's lease obligations, refer to note 17 in the Company's December 31, 2020 annual consolidated financial statements.

(3) Purchase obligations are commitments to acquire goods and services, essentially related to information services.

(4) (a) Contractual commitments are essentially 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.

(b) Letters of credit (LC) are written commitments provided by a bank. The total amount of LC facilities is US\$2,107 million of which US\$1,791 million were issued as of December 31, 2020. There are seven primary facilities within Lifeco.

The Reinsurance business unit periodically uses letters of credit as collateral under certain reinsurance contracts for on-balance sheet policy liabilities. The Company may be required to seek collateral alternatives if it is unable to renew existing LCs on maturity.

A total of US\$1,493 million has been issued to subsidiaries or branches of Canada Life and the additional US\$70 million has been issued to Great-West Life & Annuity Insurance Company of South Carolina.

The remaining US\$228 million has been issued to external parties. Clients residing in the United States are required pursuant to their insurance laws to obtain LCs issued on the Company's behalf from approved banks in order to further secure the Company's obligations under certain reinsurance contracts.

(5) Pension contributions include funding estimates for defined benefit pension plans, defined contribution pension plans and other post-employment plans. These contributions are subject to change, as contribution decisions are affected by many factors including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond 2021 are excluded due to the significant variability in the assumptions required to project the timing of future contributions.

CAPITAL MANAGEMENT AND ADEQUACY

At the holding company level, the Company monitors the amount of consolidated capital available and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements and strategic plans. 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. The capitalization decisions of the Company and its operating subsidiaries also give consideration to the impact such actions may have on the opinions expressed by various credit rating agencies that provide financial strength and other ratings to the Company.

The Board of Directors reviews and approves an annual capital plan as well as capital transactions undertaken by management pursuant to the plan. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy, risk profile and business plans. The Company has established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. In addition to undertaking capital transactions, the Company uses and provides traditional and structured reinsurance to support capital and risk management.

In Canada, OSFI has established a regulatory capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Life Insurance Capital Adequacy Test (LICAT).

Management's Discussion and Analysis

The LICAT ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer is calibrated so that a life insurer can both withstand severe stress events and have assets remaining to allow continued support of its existing business. The total Base Solvency Buffer is the aggregate of all OSFI defined capital requirements multiplied by a fixed scalar of 1.05. The total capital resources include equity items such as common shares, retained earnings and participating policyholders' surplus. There are deductions for goodwill, intangibles and some deferred tax assets. Assets backing certain provisions for adverse deviation within the insurance contract liabilities reported on the financial statements are also included in total capital resources.

OSFI has established a Supervisory Target Total Ratio of 100%, and a Supervisory Minimum Total Ratio of 90%. The internal target range of the LICAT ratio for Lifeco's major Canadian operating subsidiaries is 110% to 120% (on a consolidated basis).

Canada Life's consolidated LICAT Ratio at December 31, 2020 was 129% (135% at December 31, 2019). The LICAT Ratio does not take into account any impact from \$0.9 billion of liquidity at the Lifeco holding company level at December 31, 2020 (\$0.7 billion at December 31, 2019). The decrease in the LICAT Ratio from December 31, 2019 is primarily due to the growth in capital requirements from new business written in the year, market movements and the switch in the LICAT interest rate scenario for North America midway through the year.

The following provides a summary of the LICAT information and ratios for Canada Life:

LICAT Ratio

	Dec. 31 2020	Dec. 31 2019
Tier 1 Capital	\$11,593	\$ 11,952
Tier 2 Capital	4,568	3,637
Total Available Capital	16,161	15,589
Surplus Allowance & Eligible Deposits	14,226	12,625
Total Capital Resources	\$30,387	\$ 28,214
Required Capital	\$23,607	\$ 20,911
Total Ratio (OSFI Supervisory Target = 100%) ⁽¹⁾	129%	135%

(1) Total Ratio (%) = Total Capital Resources / Base Solvency Buffer (after 1.05 scalar)

At December 31, 2020, the Risk-Based Capital (RBC) ratio of GWL&A, Lifeco's regulated U.S. operating company, is estimated to be 409% of the Company Action Level set by the National Association of Insurance Commissioners. The estimated RBC ratio reflects acquisitions completed during 2020 including the MassMutual transaction. GWL&A reports its RBC ratio annually to U.S. Insurance Regulators. The RBC ratio is included for information only and is not intended as a means to rank insurers generally or for any other purposes.

LICAT SENSITIVITIES

Caution Related to Sensitivities

This section includes estimates of sensitivities for certain risks. 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;
- 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. Given the nature of these calculations, the Company cannot provide assurance that the actual impact on the Canada Life consolidated LICAT Ratio will be as indicated.

Publicly Traded Common Stocks

The following table sets out the estimated immediate impact to Canada Life's consolidated LICAT Ratio of certain instantaneous changes in publicly traded common stock values as at December 31, 2020. These sensitivity estimates assume instantaneous shocks, followed by a return to historical average growth levels for broader equity markets. The sensitivity estimates relate to publicly traded common stocks and do not cover other non-fixed income assets. These estimates are illustrative as actual equity exposures may vary due to active management of the public stock portfolios.

Immediate change in publicly traded common stock values

	December 31, 2020			
	20% increase	10% increase	10% decrease	20% decrease
Potential increase (decrease) on LICAT Ratio	1 point	1 point	0 points	(1 point)

Interest Rates

Sensitivity to interest rates is dependent on many factors and may result in non-linear impacts to the LICAT Ratio. Canada Life's consolidated LICAT Ratio will generally increase in an environment of declining interest rates and vice-versa. Lower interest rates will increase the value of the Company's surplus assets and other regulatory capital resources. These sensitivity estimates are illustrative. Actual movement in credit spreads or government treasury rates may produce different movements in Canada Life's consolidated LICAT Ratio. These sensitivities do not include a change in the ultimate interest rates outlined in Actuarial Standards.

Immediate parallel shift in yield curve

	December 31, 2020	
	50 bps increase	50 bps decrease
Potential increase (decrease) on LICAT Ratio	(2 points)	3 points

Impact of a LICAT interest rate risk scenario shift is not included in the sensitivity estimates.

LICAT Interest Rate Scenario Shift

The LICAT interest rate requirements are based on the results of the most adverse of four scenarios. The determination of the most adverse scenario is dependent on government treasury rates and credit spreads, as well as the position of the Company's assets and liabilities. A change in the level and term structure of interest rates used can cause a shift in the interest rate scenario applied in the LICAT calculation. This results in a discontinuity where capital requirements can change materially. During the first quarter of 2020, OSFI introduced a smoothing calculation to address potential volatility in the interest rate requirement for participating insurance products. The smoothing calculation averages the participating interest rate risk requirements over the trailing six quarters, thereby reducing unwarranted volatility.

During the third quarter of 2020, the Company experienced a shift to a new most adverse interest rate scenario in North America. The Company previously communicated that a shift to a different adverse scenario was estimated to decrease the Company's consolidated LICAT Ratio by approximately 5.5 points. This impact is spread over a six quarter period resulting in less than a 1 point decrease in the current quarter ratio with the remaining decrease of approximately 4 points being reflected over the next 4 quarters, if the Company remains on the current scenario.

COVID-19 OSFI Regulatory Measures

OSFI is providing capital relief for insurance companies due to the COVID-19 economic environment. During the fourth quarter of 2020, OSFI updated its relief measures announced earlier in the year to phase out the special capital treatment for payment deferrals. The capital relief provided by this temporary measure is not material to the Company.

OSFI Regulatory Capital Initiatives

During the fourth quarter of 2020, OSFI issued an Advisory which confirmed the interest rate risk smoothing calculation on participating insurance, and provided clarification of available capital for certain participating insurance blocks, effective January 1, 2021. The Advisory will remain in effect until January 1, 2023, when it will be subsequently incorporated into the LICAT guideline. The noted clarification is not expected to be material to the Company.

The Company will continue to work with OSFI, the Canadian Institute of Actuaries, and other industry participants, as the LICAT guideline further evolves to allow for adaptations relating to the IFRS 17 accounting standard and developments relating to Segregated Fund Guarantee Risk requirements.

The International Accounting Standards Board (IASB) has issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts* with an effective date of January 1, 2023. IFRS 17 includes new requirements for the recognition, measurement, presentation and disclosure of insurance contracts the Company issues and reinsurance contracts it holds. The new standard is expected to have a significant impact for insurers related to the timing of earnings recognition and on the presentation and disclosure of results. Adoption of the standard is expected to lead to further review and possible amendments to the OSFI LICAT Guideline. Refer to the "Accounting Policies – International Financial Reporting Standards" section for further details.

RETURN ON EQUITY (ROE) ⁽¹⁾

	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019
Base Return on Equity ⁽¹⁾			
Canada	18.5%	16.5%	16.8%
U.S. Financial Services	8.6%	10.1%	11.4%
U.S. Asset Management (Putnam)	0.7%	(0.3)%	1.2%
Europe	11.8%	13.0%	13.1%
Capital Risk and Solutions	38.8%	38.5%	33.2%
Total Lifeco Base Earnings Basis ⁽¹⁾	12.8%	13.5%	13.4%
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019
Return on Equity ⁽¹⁾			
Canada	16.4%	14.0%	15.0%
U.S. Financial Services	5.6%	10.5%	5.1%
U.S. Asset Management (Putnam)	11.6%	(11.7)%	(9.7)%
Europe	15.7%	15.9%	16.5%
Capital and Risk Solutions	44.4%	38.2%	31.9%
Total Lifeco Net Earnings Basis	14.1%	12.4%	11.7%

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

The Company reported base return on equity of 12.8% at December 31, 2020, compared to 13.4% at December 31, 2019. The Company reported return on equity of 14.1% at December 31, 2020, compared to 11.7% at December 31, 2019.

Management's Discussion and Analysis

RATINGS

The Company's intention is to maintain its financial leverage ratio in line with credit rating agencies' targets for highly rated entities. At December 31, 2020, the Company's leverage ratio was slightly in excess of target levels following debt issuances relating to U.S. acquisitions and the Company's desire to maintain a higher liquidity balance through the COVID pandemic. The Company intends to reduce leverage back in line with targets during 2021. Refer to the "Non-IFRS Financial Measures" section in this MD&A for additional details.

Lifeco maintains ratings from five independent ratings companies. Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. In 2020, the credit ratings for Lifeco and its

major operating subsidiaries were unchanged (set out in table below). The Company continued to receive strong ratings relative to its North American peer group resulting from its conservative risk profile, stable net earnings and strong capitalization. These ratings are not a recommendation to buy, sell or hold the securities of the Company or its subsidiaries and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating agency.

Lifeco's operating companies are assigned a group rating from each rating agency. This group rating is predominantly supported by the Company's leading position in the Canadian insurance market and competitive positions in the U.S. and European markets. Each of Lifeco's operating companies benefits from the strong implicit financial support and collective ownership by Lifeco. There were no changes to the Company's group credit ratings in 2020.

Rating agency	Measurement	Lifeco	Canada Life	Irish Life	GWL&A
A.M. Best Company	Financial Strength		A+		A+
DBRS Morningstar	Issuer Rating	A (high)	AA		
	Financial Strength		AA		NR
	Senior Debt	A (high)			
	Subordinated Debt		AA (low)		
Fitch Ratings	Insurer Financial Strength		AA	AA	AA
	Senior Debt	A			
	Subordinated Debt		A+		
Moody's Investors Service	Insurance Financial Strength		Aa3		Aa3
S&P Global Ratings	Insurer Financial Strength		AA		AA
	Senior Debt	A+			
	Subordinated Debt		AA-		

As part of its announcement on September 8, 2020 that its subsidiary, GWL&A, through its Empower Retirement business, had reached an agreement to acquire the retirement services business of MassMutual, Lifeco announced that the transaction was expected to be funded by US\$1.5 billion of new long-term debt and US\$0.5 billion of short-term financing, as well as existing cash. In addition, Lifeco noted that the short-term financing allows for leverage ratio reduction once the acquired business generates meaningful earnings and cash flow.

Following the announcement, and having regard to the financing plan and its impact on leverage in the near term, all five rating agencies affirmed the ratings as set out above. Four of the five agencies also affirmed the ratings outlook as stable while Fitch Ratings revised its outlook to negative from stable.

SEGMENTED OPERATING RESULTS

The consolidated operating results of Lifeco, including the comparative figures, are presented on an IFRS basis after capital allocation. Consolidated operating results for Lifeco comprise the net earnings of Canada Life and its operating subsidiary, Irish Life; GWL&A (Financial Services) and Putnam (Asset Management); together with Lifeco's Corporate results.

CANADA

The Canada segment of Lifeco includes the operating results of the Canadian businesses operated by Canada Life, together with an allocation of a portion of Lifeco's corporate results. There are two primary business units included in this segment. Through the Individual Customer business unit, the Company provides life, disability and critical illness insurance products as well as wealth savings and income products to individual clients. Through the Group Customer business unit, the Company provides life, accidental death and dismemberment, critical illness, health and dental protection, creditor insurance as well as retirement savings and income products and other specialty products to group clients in Canada.

BUSINESS PROFILE

INDIVIDUAL CUSTOMER

Individual Customer comprises both insurance and wealth management product lines sold to individual customers.

Individual insurance includes individual life, disability and critical illness insurance products and services. Individual wealth management includes individual wealth savings and income products and services. The Company is a leader in Canada for all insurance and wealth management products and services and utilizes diverse, complementary distribution channels: Freedom 55 Financial™ (Freedom), Wealth and Insurance Solutions Enterprise (WISE), managing general agencies (MGAs) and national accounts, including IG Wealth Management, a member of the Power Financial Corporation group of companies. Through Financial Horizons Group, the Company participates in the MGA channel, distributing products from across the insurance industry.

By offering this broad suite of products and services through multiple distribution channels, the Company is able to provide advice and product solutions to meet the needs of Canadians at all phases of their lives.

Effective January 1, 2020, as a result of strategic operational changes, the Company has divided the previously reported Europe segment into two separate reporting segments – Europe and Capital and Risk Solutions. The Company's other reportable segments – Canada, United States and Lifeco Corporate – are unchanged. Comparative figures have been reclassified to reflect the new composition of the reportable segments.

GROUP CUSTOMER

Group Customer includes group life and health benefits, group creditor, and group retirement and investment product lines.

Through its group life and health benefit product lines, the Company offers effective benefit solutions for small, medium and large plan sponsors. The Company offers a wide range of traditional group products and services including life, accidental death and dismemberment, critical illness, disability, health and dental as well as specialty products. In addition, specialty product development has been a focus over the past several years as the Company seeks to provide customized solutions to increasingly unique customer needs. Products to address the needs of mental health in the workplace, high cost medications, optional products purchased by plan members directly and wellness programs are examples of this.

The Company's creditor business offers creditor insurance products through large financial institutions and credit card companies. Canada Life is a leader in the creditor insurance business in Canada.

Group retirement and investment product lines include group Registered Retirement Savings Plans (RRSP), Tax-Free Savings Accounts (TFSA), Registered Education Savings Plans (RESP), group retirement income products, and institutional investment services. The Company is focused on innovation within its savings and investment product lines.

Through the Company's extensive network of Group sales offices located across the country, it distributes its products through brokers, consultants and financial security advisors.

MARKET OVERVIEW

PRODUCTS AND SERVICES

INDIVIDUAL CUSTOMER

The Company provides an array of individual insurance and individual wealth management products that are distributed through multiple sales channels.

MARKET POSITION

- A leader in individual life insurance sales measured by new annualized premium with 21.9% market share ⁽¹⁾
- A significant provider of individual disability and critical illness insurance with 12.1% market share of new sales ⁽¹⁾
- An industry leader with 26.3% market share of individual segregated fund assets ⁽²⁾

PRODUCTS AND SERVICES

Individual Life Insurance

- Term life
- Universal life
- Participating life

Living Benefits

- Disability
- Critical illness

Individual Wealth Management

- Savings plans
 - RRSPs
 - Non-registered savings programs
 - TFSA's
 - RESP's
- Invested in:
 - Segregated funds
 - Mutual funds
 - Guaranteed investment options
- Retirement Income Plans
 - Retirement income funds
 - Life income funds
 - Payout annuities
 - Deferred annuities
- Residential mortgages
- Banking products

DISTRIBUTION ⁽³⁾

Wealth and Insurance Solutions Enterprise

- 2,150 financial security advisors

Freedom 55 FinancialTM

- 2,252 financial security advisors

Affiliated Partnerships

- 7,092 independent brokers associated with 31 MGAs
- 1,395 advisors associated with 14 national accounts
- 1,629 IG Wealth Management consultants who actively sell Canada Life products
- 90 direct brokers and producer groups

Financial Horizons Group⁽⁴⁾

- 5,175 independent brokers selling products from across the insurance industry, including Canada Life

Quadrus Investment Services Ltd.

- (also included in WISE & Freedom advisor counts):
- 3,217 investment representatives

(1) Nine months ended September 30, 2020.

(2) As at November 30, 2020.

(3) WISE & Freedom includes all contracted advisors. Affiliated Partnerships and Financial Horizons Group include advisors who placed new business in 2020.

(4) FHG advisors that placed Canada Life business in 2020 are also included in the MGA independent broker count.

GROUP CUSTOMER

The Company provides an array of life, health and creditor insurance products that are distributed primarily through Group sales offices across the country.

MARKET POSITION

- Employee benefits to over 29,700 plan sponsors ⁽¹⁾
- 21% market share for employee benefit plans ⁽¹⁾
- Leading market share for creditor products with coverage provided to over 7.4 million plan members ⁽²⁾
- 19% market share of group capital accumulation plans ⁽¹⁾

PRODUCTS AND SERVICES

Group Life and Health Benefits

- Life
- Disability
- Critical illness
- Accidental death & dismemberment
- Dental
- Expatriate coverage
- Extended health care

Group Creditor

- Life
- Disability
- Job loss
- Critical illness

Group Retirement & Investment Services

- Group Capital Accumulation Plans including:
 - Defined contribution pension plans
 - Group RRSPs, RESP's & TFSA's
 - Deferred profit sharing plans
 - Non-registered savings programs
 - Invested in:
 - Segregated funds
 - Guaranteed investment options
 - Single company stock
 - Retirement Income Plans
 - Payout annuities
 - Deferred annuities
 - Retirement income funds
 - Life income funds
 - Investment management services only plans
- Invested in:
- Segregated funds
 - Guaranteed investment options
 - Securities

Specialty Products and Services

- DialogueTM
- Best DoctorsTM
- Contact
- Individual Health

DISTRIBUTION

- Group Life and Health and Group Retirement and Investment Services are distributed through brokers, consultants, and financial security advisors. Sales and service support are provided by an integrated team of over 619 employees, located in 26 offices across the country, including 114 account executives. ⁽²⁾
- Group Creditor products and services are distributed primarily through large financial institutions and serviced through a dedicated sales and service organization.

(1) As at December 31, 2019

(2) As at November 30, 2020

Management's Discussion and Analysis

COMPETITIVE CONDITIONS

INDIVIDUAL CUSTOMER

The individual insurance marketplace is highly competitive. Competition focuses on service, technology, product features, price and financial strength, as indicated by ratings issued by nationally recognized agencies. The Company's broad spectrum of distribution associates, including exclusive and independent channels, provide important strategic advantages within the Canadian market.

The individual wealth management marketplace is also very competitive. The Company's main competitors include mutual fund companies, insurance companies, banks and investment advisors as well as other service and professional organizations. New FinTech competitors have entered the marketplace leading to increased competition. Competition focuses on ease of doing business through technology, service, variety of investment options, investment performance, product features, price (fees) and financial strength. Individual wealth management's broad spectrum of distribution associates, including exclusive and independent channels, provide important strategic advantages within the Canadian market.

GROUP CUSTOMER

The group life and health benefits market in Canada is highly competitive. There are three large group insurance carriers with significant market positions, a number of smaller companies operating nationally and several regional and niche competitors. The Company has a significant market share of 21%, which is supported by an extensive distribution network who have access to a wide range of products and services. This strong market share position is a distinct advantage for competing successfully in the Canadian group insurance market.

The group capital accumulation plan market is also very competitive. Three major insurance companies hold a significant market share while several smaller insurance companies have an important market presence.

The pension risk transfer business continues to grow in the Canadian marketplace as more companies with defined benefit pension plans (open or closed) look to transfer the investment and longevity risk to insurance companies. Helping the market with the capacity to meet this demand, existing companies have increased their presence in the marketplace, including major independent and bank-owned insurance companies with strong balance sheets and new entrants.

Selected consolidated financial information – Canada

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ^{(1) (4)}	\$ 7,017	\$ 6,161	\$ 7,229	\$ 25,838	\$ 27,346
Sales ⁽¹⁾	3,729	2,520	3,609	12,271	13,249
Fee and other income	461	445	457	1,756	1,766
Base earnings ⁽¹⁾	\$ 348	\$ 270	\$ 274	\$ 1,206	\$ 1,178
Items excluded from base earnings ⁽²⁾					
Actuarial assumption changes and other management actions ⁽²⁾	(147)	4	(82)	(194)	(121)
Market-related impacts on liabilities ⁽²⁾	(10)	(8)	(4)	(51)	(6)
Net gain/charge on business dispositions ^{(2) (3)}	143	–	–	143	–
Restructuring costs ^{(2) (3)}	(34)	–	–	(34)	–
Net earnings	\$ 300	\$ 266	\$ 188	\$ 1,070	\$ 1,051
Total assets	\$ 187,698	\$ 181,727	\$ 176,304		
Proprietary mutual funds and institutional net assets ⁽¹⁾	7,311	6,979	6,986		
Total assets under management ⁽¹⁾	195,009	188,706	183,290		
Other assets under administration ⁽¹⁾	18,554	17,749	17,118		
Total assets under administration ⁽¹⁾	\$ 213,563	\$ 206,455	\$ 200,408		

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

(3) The net gain on the sale of GLC and restructuring costs are included in the Canada Corporate business unit.

(4) Comparative figures have been reclassified to reflect presentation adjustments.

Base earnings ⁽¹⁾ and Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Individual Customer	\$ 132	\$ 123	\$ 143	\$ 552	\$ 580
Group Customer	205	134	144	677	610
Canada Corporate	11	13	(13)	(23)	(12)
Base earnings ⁽¹⁾	\$ 348	\$ 270	\$ 274	\$ 1,206	\$ 1,178
Individual Customer	\$ (9)	\$ 119	\$ 87	\$ 317	\$ 431
Group Customer	189	134	114	667	632
Canada Corporate	120	13	(13)	86	(12)
Net earnings – common shareholders	\$ 300	\$ 266	\$ 188	\$ 1,070	\$ 1,051

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

2020 DEVELOPMENTS

- **COVID-19 Pandemic Impacts** – The results of the Canada segment for the twelve months ended December 31, 2020 reflect the continued positive impact of market recoveries but also the impact of the economic slowdown caused by the COVID-19 pandemic on new business growth and lower contributions from investment experience. The impact of lower sales due to the economic slowdown was mostly offset by lower redemptions or lower business attrition. Many new product launches and digital capabilities are helping to build sales momentum. Experience was positive with limited impact on mortality and lower claims experience and morbidity improvement offsetting pressures on expense recoveries. Insurance premium deferrals for customers were limited in 2020.

ASO expense recoveries are temporarily affected by lower claim volumes driven by restrictions on provider activity, but results are expected to improve as the economy re-opens and as services become accessible. Physical distancing and self-isolation requirements as well as the restrictions on business and social activities and the adverse economic environment resulting from the pandemic may cause unfavourable disability experience in future periods. Pricing of disability coverage will be adjusted over time as experience emerges. Paramedical services started to return early in the third quarter of 2020; insurance sales were affected for a period of time due to the absence of these services but have shown improvement in the fourth quarter.

The Canada segment remains focused on supporting customers, communities and employees by providing Canadians with protection and wealth management solutions for their financial, physical and mental well-being during this unprecedented time. Products, services and support are being delivered digitally to promote physical distancing and help keep customers, advisors and employees safe. The Company has been supporting customers through digital solutions such as SimpleProtect, which provides online insurance policy application and approval, Consult+, which provides group customers virtual health care access, a digital context based messaging feature in the GroupNet for Plan Members mobile application that allows members to receive personalized notifications and offers directly to their device. This service has been used to connect members with some of the supports and measures that were introduced as a result of COVID-19. Financial assistance is being provided to plan sponsors and members to help maintain and extend coverage for employees, and to the communities through donations.

The Canadian business is maintaining a cautious approach to employees returning to the office, in line with the Company's principles and local government guidelines. During the fourth quarter of 2020, confirmed COVID-19 cases began to rise in the jurisdictions in Canada in which the Company operates. The Company estimates that maximum occupancy will not exceed the current level of 15% to 20% by the end of the first quarter of 2021 with health and safety protocols recommended by public health authorities in place.

Canada Life continued its temporary suspension of contributions, redemptions and transfers for its real estate segregated funds, as the economic conditions caused by the COVID-19 situation continue to lead to valuation uncertainty in the real estate industry. As of January 11, 2021, the suspension has been partially lifted, allowing contributions and transfers into the fund. As well, requests for redemptions and transfers out of the fund are being accepted for a limited period and will be processed, subject to available liquidity, on pre-specified dates; however, redemptions and transfers out of the funds otherwise remain suspended.

- On January 1, 2020, the Company amalgamated its three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., into a single life insurance company, The Canada Life Assurance Company. This amalgamation creates operating efficiencies and simplifies the Company's capital structure to allow for more efficient use of capital, although it is not expected to have a material financial impact.
- On October 29, 2020, the Company entered into a strategic relationship with Mackenzie and Northleaf Capital Partners Ltd. (Northleaf) to expand and enhance the private markets product capabilities across distribution channels. Mackenzie and Lifeco jointly acquired a non-controlling interest in Northleaf through an acquisition vehicle 80% owned by Mackenzie and 20% owned by Lifeco, providing a significant presence in the large and rapidly growing private markets investments industry, with an obligation and right to purchase the remaining equity and voting interests in the firm commencing in approximately five years and extending into future periods. Lifeco has also committed, as part of the transaction, to make a minimum investment of its balance sheet through 2022 in Northleaf's product offerings.
- On December 31, 2020, the Company completed the sale of GLC Asset Management Group Ltd. (GLC) to Mackenzie Financial Corporation (Mackenzie), an affiliate of the Company. GLC was a wholly-owned subsidiary of Canada Life whose principal activity was the provision of investment management services to Canada Life. The Company recognized a net gain on disposal of \$143 million, net of restructuring costs of \$16 million after-tax. The carrying value and earnings of the business are immaterial to the Company. Refer to the "Transactions with Related Parties" section of this document for additional information regarding the sale.

Canada Life also established its own fund management company, Canada Life Investment Management Ltd. (CLIML), and on December 31, 2020, CLIML assumed fund management responsibilities for the Canada Life Mutual Funds, offered by Quadrus Investment Services Ltd., a subsidiary of Canada Life, and other Canada Life branded investment funds. CLIML entered into a long-term administration agreement with Mackenzie and Canada Life, and CLIML and Canada Life entered into a long-term distribution agreement with Mackenzie to provide them with access to Mackenzie's investment management services at preferred rates.

Management's Discussion and Analysis

- In the fourth quarter of 2020, two initiatives impacting the Canada segment operations were announced. The Company announced changes to its Canadian distribution strategy and vision for advisor based distribution, and IGM Financial, an affiliate of the Company, has notified the Company of its intent to terminate its long-term technology infrastructure related sharing agreement in the first quarter of 2021. These initiatives, together with the sale of GLC, will result in staff reductions, exit costs for certain facilities lease agreements and decommissioning activities related to technology and other assets. As a result of these transactions, the Company has recorded a restructuring provision of \$92 million, including the restructuring costs associated with the GLC disposition, (\$68 million in the shareholder account and \$24 million in the participating account). The after-tax impact of the restructuring provision is \$68 million in-quarter (\$50 million in the shareholder account, \$34 million excluding restructuring costs related to the GLC disposition, and \$18 million in the participating account). Changes relating to these initiatives are expected to be implemented by the end of 2022 and are not expected to have a material impact on the Company's ongoing financial results.
- During the year, the Company launched other new tools and products to improve customer experience and help them meet their financial and wellness objectives:
 - Canada Life launched a new participating life insurance product available to advisors in all channels and supported by the amalgamated Canada Life participating account.
 - Canada Life launched the newly rebranded Canada Life mutual fund shelf, Canada Life Mutual Funds. The shelf features 18 new mutual funds, which were available for sale starting September 9, 2020, and rebrands the existing Quadrus Group of Funds shelf, creating a curated selection of competitive investment strategies across a range of managers, asset classes and styles. Canada Life Mutual Funds are managed by CLIML and are exclusively available through Quadrus Investment Services Ltd.
 - Canada Life updated its target risk asset allocation funds and also launched new Risk-Managed Portfolios to help protect clients from the unexpected while still helping them reach their goals.
 - Rolled out the new Advisor Workspace to all Freedom 55 Financial and WISE advisors, approximately 93% of whom have registered to use the platform as of December 31, 2020. Advisor Workspace allows advisors to view their clients' complete book of business with Canada Life as well as to complete some simple non-financial transactions. Advisor Workspace will become the platform for all advisor information and activity with Canada Life as it continues to evolve.
 - Group Customer became the first Group provider in Canada to launch an employer sponsored Registered Education Savings Program (RESP). This digital RESP simplifies the enrollment process and forms, offers lower fees and an easy to use portal.
- During the year, the Company received the following awards and rankings:
 - The Company earned an A ('Leadership') rating on CDP's 2020 Climate Change Questionnaire, a rating which identifies the global leaders in the management of carbon, climate change risks and low carbon opportunities. The Company once again achieved the highest rating among Canadian insurance companies for the sixth consecutive year.
 - The Company won the CNA Canada Award for Excellence in Philanthropy and Community Service at the 2020 Insurance Business Canada Awards for the Company's major philanthropic and community service initiatives, impact on local and national causes and strong presence in the insurance space in Canada.

Management's Discussion and Analysis

BUSINESS UNITS – CANADA

INDIVIDUAL CUSTOMER

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ^{(1) (3)}	\$ 3,049	\$ 2,503	\$ 3,110	\$ 10,626	\$ 10,619
Sales ⁽¹⁾	2,934	1,928	2,718	9,541	9,318
Fee and other income	251	251	258	981	995
Base earnings ⁽¹⁾	\$ 132	\$ 123	\$ 143	\$ 552	\$ 580
Items excluded from base earnings ⁽²⁾					
Actuarial assumption changes and other management actions ⁽²⁾	(131)	4	(52)	(184)	(143)
Market-related impacts on liabilities ⁽²⁾	(10)	(8)	(4)	(51)	(6)
Net earnings	\$ (9)	\$ 119	\$ 87	\$ 317	\$ 431

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

(3) Comparative figures have been reclassified to reflect presentation adjustments.

Premiums and deposits

Premiums and deposits for the fourth quarter of 2020 decreased by \$0.1 billion to \$3.0 billion compared to the same quarter last year, primarily due to lower segregated fund deposits, partially offset by higher proprietary mutual fund deposits and higher participating life insurance premiums.

For the twelve months ended December 31, 2020, premiums and deposits were comparable to the same period last year.

Premiums and deposits for the fourth quarter of 2020 increased by \$0.5 billion compared to the previous quarter, primarily due to an increase in participating life insurance premiums.

Sales

Sales for the fourth quarter of 2020 increased by \$0.2 billion to \$2.9 billion compared to the same quarter last year, primarily due to higher mutual fund sales.

For the twelve months ended December 31, 2020, sales of \$9.5 billion increased by \$0.2 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Sales for the fourth quarter of 2020 increased by \$1.0 billion compared to the previous quarter, primarily due to higher segregated fund and mutual fund sales.

For the individual wealth investment fund business, net cash outflows for the fourth quarter of 2020 were \$99 million compared to \$299 million for the same quarter last year and \$125 million for the previous quarter. Net cash outflows for the twelve months ended December 31, 2020 were \$464 million compared to \$1,386 million for the same period last year.

Assets under administration – Individual Wealth

	December 31	
	2020	2019
Assets under management ⁽¹⁾		
Risk-based products	\$ 4,899	\$ 4,920
Segregated funds	33,866	32,915
Proprietary mutual funds	7,311	6,803
Total assets under management ⁽¹⁾	\$46,076	\$44,638
Other assets under administration ^{(1) (2)}	\$11,597	\$ 9,996
Total assets under administration – Individual Wealth ⁽¹⁾	\$57,673	\$54,634

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Includes third party mutual funds distributed by Quadrus.

Fee and other income

Fee and other income for the fourth quarter of 2020 decreased by \$7 million to \$251 million compared to the same quarter last year, primarily due to lower margins, partially offset by higher average assets under administration.

For the twelve months ended December 31, 2020, fee and other income of \$981 million decreased by \$14 million compared to the same period last year, primarily due to lower margins.

Fee and other income for the fourth quarter of 2020 were comparable to the previous quarter.

Base earnings

Base earnings for the fourth quarter of 2020 decreased by \$11 million to \$132 million compared to the same quarter last year. The decrease was primarily due to lower net fee income and the impact of changes to certain tax estimates, partially offset by favourable policyholder behaviour experience.

For the twelve months ended December 31, 2020, base earnings decreased by \$28 million to \$552 million compared to the same period last year. The decrease was primarily due to lower net fee income, lower impact of new business driven by lower interest rates and unfavourable morbidity experience, partially offset by favourable mortality and policyholder behaviour experience.

Base earnings for the fourth quarter of 2020 increased by \$9 million compared to the previous quarter, primarily due to higher contributions from investment experience and higher impact of new business, partially offset by the impact of changes to certain tax estimates, unfavourable policyholder behaviour experience and lower net fee income.

Net earnings

Net earnings for the fourth quarter of 2020 decreased by \$96 million to negative \$9 million compared to the same quarter last year. The decrease was primarily due to unfavourable impact of insurance contract liability basis changes, unfavourable market-related impacts and the reasons discussed for base earnings for the same period. Insurance contract liability basis changes in 2020 include the unfavourable impact of updates to policyholder behaviour assumptions and certain investment-related assumptions, partially offset by the favourable impact of updates to mortality assumptions.

For the twelve months ended December 31, 2020, net earnings decreased by \$114 million to \$317 million compared to the same period last year. The decrease was primarily due to higher unfavourable impacts of insurance contract liability basis changes, unfavourable market-related impacts, and the reasons discussed for base earnings for the same period. The unfavourable market-related impacts were primarily driven by the impact of the equity market declines and volatility in the first quarter of 2020 on segregated fund guarantees and their related hedging ineffectiveness.

Net earnings for the fourth quarter of 2020 decreased by \$128 million compared to the previous quarter, primarily due to unfavourable impacts of insurance contract liability basis changes, partially offset by the reasons discussed for base earnings for the same period.

For the fourth quarter of 2020, net earnings attributable to the participating account was \$9 million compared to a net loss of \$30 million for the same quarter last year, primarily due to higher impact of new business. Included in participating account earnings for the fourth quarter of 2020 were restructuring costs of \$18 million related to strategic initiatives as discussed in the "2020 Developments" section. In addition, participating account earnings for the fourth quarter of 2019 included unfavourable impacts of insurance contract liability basis changes.

For the twelve months ended December 31, 2020, net earnings attributable to the participating account were \$76 million

compared to net earnings of \$13 million for the same period last year, primarily due to higher impact of new business, partially offset by lower contributions from insurance contract liability basis changes and the restructuring costs discussed for the in-quarter results.

For the fourth quarter of 2020, net earnings attributable to the participating account were \$9 million compared to net earnings of \$23 million for the previous quarter, primarily due to the restructuring costs discussed for the in-quarter results, partially offset by higher impact of new business. Participating account earnings for the third quarter of 2020 included unfavourable impacts of insurance contract liability basis changes.

OUTLOOK – INDIVIDUAL CUSTOMER

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The Individual Customer business unit delivered strong core business results in 2020. The new single brand and company provides efficiencies and focus that when added to the Company's reputation for strength and stability, prudent business practices and the depth and breadth of its distribution channels, positions the Company well for 2021 and beyond.

COVID-19 impacted Individual Customer sales as a result of slower market activity and paramedical services closing for part of 2020. Individual Insurance application activity has returned to close to pre-COVID-19 levels and paramedical services have re-opened, but it is unclear what impact COVID-19 will have on future period results. Continued focus on providing customers and advisors with digital solutions for sales and service will remain a key priority.

In 2021, Individual Customer will continue to advance on strategies to position for growth. The Company will further establish the value propositions for advisors in all channels, providing them with strategies and tools for helping customers focus on achieving long-term financial security regardless of life stage and market fluctuations. This commitment to advice is beneficial to strong customer retention as well as helping advisors attract new customers to the Company. A key distribution strategy will be to maximize the use of common tools, processes and support, while tailoring support to specific segments of advisors where appropriate.

The Company will continue to competitively develop, price and market its comprehensive range of individual insurance and individual wealth management products while maintaining its focus on sales and service support to customers and advisors in all channels. The Company will also continue to monitor and respond to the impacts of long-term interest rates and fee income compression.

Operational expense management continues to be critically important to delivering strong financial results. The Company will seek to achieve this through disciplined expense controls and effective development and implementation of strategic initiatives. Management has identified a number of areas of focus for these initiatives to facilitate the objective of organic growth, including continuing to invest in digital solutions to support advisors and customers and addressing its legacy of administration systems and processes to unlock the potential for future growth.

Management's Discussion and Analysis

GROUP CUSTOMER

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾	\$ 3,968	\$ 3,658	\$ 4,119	\$ 15,212	\$ 16,727
Sales ⁽¹⁾	795	592	891	2,730	3,931
Fee and other income	195	179	184	716	708
Base earnings ⁽¹⁾	\$ 205	\$ 134	\$ 144	\$ 677	\$ 610
Items excluded from base earnings ⁽²⁾					
Actuarial assumption changes and other management actions ⁽²⁾	(16)	–	(30)	(10)	22
Net earnings	\$ 189	\$ 134	\$ 114	\$ 667	\$ 632

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

Premiums and deposits

Premiums and deposits for the fourth quarter of 2020 decreased by \$0.2 billion to \$4.0 billion compared to the same quarter last year, primarily due to lower segregated fund deposits.

For the twelve months ended December 31, 2020, premiums and deposits decreased by \$1.5 billion to \$15.2 billion compared to the same period last year. The decrease was primarily due to lower administrative services only (ASO) deposits for group insurance, lower segregated fund deposits and lower premiums from single premium group annuities (SPGAs). Lower ASO deposits were primarily related to the impact of the COVID-19 pandemic service restrictions resulting in lower claims of approximately \$0.3 billion.

Premiums and deposits for the fourth quarter of 2020 increased by \$0.3 billion to \$4.0 billion compared to the previous quarter, primarily due to higher ASO deposits for group insurance, higher segregated fund deposits and higher premiums from SPGAs.

Sales

Sales for the fourth quarter of 2020 decreased by \$0.1 billion to \$0.8 billion compared to the same quarter last year, primarily due to lower segregated fund deposits.

For the twelve months ended December 31, 2020, sales of \$2.7 billion decreased by \$1.2 billion compared to the same period last year, primarily due to lower large case sales. There has been low market activity as a result of the COVID-19 pandemic, resulting in lower sales.

Sales for the fourth quarter of 2020 increased by \$0.2 billion compared to the previous quarter, primarily due to higher SPGA sales and higher segregated fund deposits.

For the group wealth segregated fund business, net cash outflows for the fourth quarter of 2020 were \$76 million, compared to net cash inflows of \$122 million for the same quarter last year and net cash outflows of \$117 million for the previous quarter. For the twelve months ended December 31, 2020, net cash inflows were \$68 million compared to \$529 million for the same period last year.

Assets under administration – Group Retirement & Investment Services

	December 31	
	2020	2019
Assets under management ⁽¹⁾		
Risk-based products	\$ 8,693	\$ 8,532
Segregated funds	56,814	52,697
Institutional assets	–	183
Total assets under management ⁽¹⁾	\$65,507	\$61,412
Other assets under administration ^{(1) (2)}	\$ 481	\$ 472
Total assets under administration – Group Retirement & Investment Services ⁽¹⁾	\$65,988	\$61,884

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Includes mutual funds distributed by Quadrus, stock purchase plans administered by Canada Life and portfolio assets managed by GLC Asset Management Group.

Fee and other income

Fee and other income for the fourth quarter of 2020 of \$195 million increased by \$11 million compared to the same quarter last year and by \$16 million compared to the previous quarter, primarily due to higher ASO fee income and higher fee income for group wealth products primarily due to higher average assets under management.

For the twelve months ended December 31, 2020, fee and other income increased by \$8 million to \$716 million compared to the same period last year, primarily due to higher fee income for group wealth products primarily due to higher average assets under management. The increase was partially offset by lower ASO fee income.

Management's Discussion and Analysis

Base earnings

Base earnings for the fourth quarter of 2020 increased by \$61 million to \$205 million compared to the same quarter last year, primarily due to favourable morbidity experience, partially offset by lower contributions from investment experience.

For the twelve months ended December 31, 2020, base earnings increased by \$67 million to \$677 million compared to the same period last year. The increase was primarily due to favourable morbidity experience and higher tax benefits, partially offset by lower contributions from investment experience.

Base earnings for the fourth quarter of 2020 increased by \$71 million compared to the previous quarter, primarily due to favourable morbidity experience.

Net earnings

Net earnings for the fourth quarter of 2020 increased by \$75 million to \$189 million compared to the same quarter last year. The increase was primarily due to the same reasons discussed for base earnings for the same period as well as lower unfavourable impacts of insurance contract liability basis changes.

For the twelve months ended December 31, 2020, net earnings increased by \$35 million to \$667 million compared to the same period last year. The increase was primarily due to the same reasons discussed for base earnings for the same period, partially offset by unfavourable impacts of insurance contract liability basis changes.

Net earnings for the fourth quarter of 2020 increased by \$55 million compared to the previous quarter, primarily due to the same reason discussed for base earnings for the same period, partially offset by unfavourable impacts of insurance contract liability basis changes.

OUTLOOK – GROUP CUSTOMER

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

During 2020, the Company maintained its strong competitive position in the Canadian group market with leading or strong market share in all case size, regional and benefit market segments. The Company believes that this market share position, together with its distribution capacity, will facilitate continued growth in net premium income.

COVID-19 has impacted the overall Canada employment rate and this may impact employee attrition in existing Group plans, however impact to date has been limited. While uncertainty remains about the future of the economy, the supports that employers and Canada Life have put in place have helped preserve the critical benefits and savings programs for those on reduced working hours, temporary layoffs, or leaves of absences. Federal and Provincial governments have also stepped in to define emergency leaves that support members in the continuation of their benefit programs. These have all helped allow Canada Life to continue to offer critical Group Benefits and Savings programs to Canadians throughout the pandemic.

Additionally, through ongoing investment in digital technologies and innovative benefit solutions, the Company expects to continue to enhance its competitive position in the marketplace. For example, in 2020 and continuing into 2021, Group Customer is launching an integrated plan member digital platform to service customers of Group Benefits and Group Savings products. This new portal, *My Canada Life at Work*, will facilitate a more streamlined experience for both members and plan sponsors, bringing together the great digital experiences from *GroupNet* and *GRS Access*.

For customers that have both group benefits and pension business with Canada Life, this provides an integrated view into both benefits and pensions and makes it easier for members to interact and do business with Canada Life. It will also allow Group Customer to more effectively and efficiently service these customers through a singular experience, allow members to easily purchase additional services from Canada Life with an integrated view into their health and savings, and improve our digital market leadership in the Group Benefits and Savings space.

Group Customer also rolled out Portable Benefits, a fully digital optional benefits offering that provides members with additional flexibility in purchasing Life, Critical Illness or Accidental Death & Dismemberment coverages. This coverage is unique in that it requires no additional administration on the Group Sponsors' behalf, and quick and easy approval for members online, advancing our ability to provide financial protection to our members. In 2021, we will continue to offer Portable Benefits to more sponsors and more members, leveraging innovative new digital methods for surfacing and fulfilling this innovative solution. This product helps deepen our relationship with Group Customer plan members, and helps fulfil our purpose of improving the physical, financial and mental well-being of our customers.

The Canadian distribution landscape continues to evolve and the Company is working closely with all distribution partners to demonstrate how it can help build on the value of their advice.

CANADA CORPORATE

Canada Corporate consists of items not associated directly with or allocated to the Canadian business units.

For the fourth quarter of 2020, Canada Corporate had net earnings of \$120 million compared to a net loss of \$13 million for the same quarter last year, primarily due to the net gain on the sale of GLC of \$143 million and more favourable changes in certain tax items, partially offset by a restructuring provision for strategic activities discussed in the "2020 Developments" section.

Net earnings for the twelve months ended December 31, 2020 were \$86 million compared to a net loss of \$12 million for the same period last year, primarily due to the same reasons discussed for the in-quarter results.

In the fourth quarter of 2020, net earnings were \$120 million compared to \$13 million in the previous quarter, primarily due to a gain on the sale of GLC of \$143 million and more favourable changes in certain tax items, partially offset by a restructuring provision discussed for the in-quarter results.

UNITED STATES

The United States operating results for Lifeco include the results of GWL&A (which operates primarily as 'Empower Retirement'), Putnam Investments and the results of the insurance businesses in the United States branch of Canada Life, together with an allocation of a portion of Lifeco's corporate results.

Through its Financial Services business unit, and specifically the Empower Retirement brand, the Company provides an array of financial security products, including employer-sponsored defined contribution plans, administrative and recordkeeping services, individual retirement accounts, fund management as well as investment and advisory services. Following the close of the reinsurance transaction with Protective Life in the second quarter of 2019, Financial Services also includes a retained block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance. The Financial Services business unit also includes the results of Personal Capital, a hybrid wealth manager that provides financial tools and advice to individuals, following the completion of its acquisition in the third quarter of 2020. On December 31, 2020, Empower Retirement acquired the retirement services business of MassMutual, strengthening Empower Retirement's position as the second largest player in the U.S. retirement market.

Following the close of the reinsurance transaction with Protective Life in the second quarter of 2019, the Reinsured Insurance & Annuity Business, which was previously reflected in Financial Services, is being reported as a separate business unit. The Reinsured Insurance & Annuity Business unit reflects substantially all of the individual life insurance and annuity business which has been sold, through indemnity reinsurance, to Protective Life effective June 1, 2019. These products include life insurance, annuity and executive benefits, which are no longer offered by the U.S. segment.

Through its Asset Management business unit, the Company provides investment management, certain administrative functions, distribution and related services, through a broad range of investment products.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Impact of currency movement is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

BUSINESS PROFILE

FINANCIAL SERVICES

Empower Retirement offers employer-sponsored defined contribution plans, individual retirement accounts, enrollment services, communication materials, investment options and education services. The Great-West Investments brand offers fund management, investment and advisory services. The Empower Institutional brand offers private label recordkeeping and administrative services for other providers of defined contribution plans. Empower Retirement is the second largest defined contribution recordkeeper in the U.S. and the largest provider of services to state defined contribution plans. Personal Capital is a hybrid wealth manager that combines a leading-edge digital experience with personalized advice delivered by human advisors.

ASSET MANAGEMENT

Putnam provides investment management services and related administrative functions and distribution services. Putnam offers a broad range of investment products, including equity, fixed-income, absolute return and alternative strategies, through Putnam Funds, Putnam World Trust Funds and institutional portfolios (including hedge fund and other alternative strategies), model-based separately managed accounts (SMAs) and model portfolios. Revenue is derived from the value and composition of assets under management and performance fees as well as service and distribution fees. Accordingly, fluctuations in the financial markets and changes in the composition of assets or accounts affect revenues and results of operations.

MARKET OVERVIEW

PRODUCTS AND SERVICES

The Company provides a focused product offering that is distributed through a variety of channels.

FINANCIAL SERVICES
MARKET POSITION - Second largest defined contribution recordkeeper in the country⁽¹⁾ by participants providing services for 9.4 million participant accounts and 41,000 plans⁽²⁾. In addition, Empower added 2.5 million participant accounts and 26,000 plans⁽³⁾ in the MassMutual transaction 21.0% market share in state and local government deferred compensation plans, based on number of participant accounts⁽⁴⁾ - Great-West Lifetime Funds are the 15th largest target date fund offering in the U.S.⁽²⁾
PRODUCTS AND SERVICES - Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services - Administrative and recordkeeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans - Fund management, investment and advisory services - Individual retirement accounts (IRAs) and taxable brokerage accounts
DISTRIBUTION - Retirement services products distributed to plan sponsors through brokers, consultants, advisors, third-party administrators and banks - Empower Institutional recordkeeping and administrative services distributed through institutional clients - IRAs and taxable brokerage accounts available to individuals through the Retirement Solutions Group as well as distributed directly to consumers

- (1) As at June 30, 2020
(2) As at December 31, 2020
(3) As at November 30, 2020
(4) As at September 30, 2019

ASSET MANAGEMENT
MARKET POSITION - A global investment manager with assets under management of US\$191.6 billion⁽¹⁾ - Global distribution includes sales teams that are focused on major institutional markets in the U.S., Europe, the Middle East, Asia and Australia and through a long-standing strategic distribution relationship in Japan
PRODUCTS AND SERVICES Investment Management Products & Services - Individual retail investors – a family of open-end mutual funds and closed-end funds, college savings plans, mutual funds underlying variable annuity products, and model-only separately managed accounts and model portfolios for clients of third party financial firms - Institutional investors – defined benefit plans sponsored by corporations, state, municipal and other governmental authorities, university endowment funds, charitable foundations, sovereign wealth funds and collective investment vehicles (both U.S. and non-U.S.) - Investment offerings for defined contribution plans - Alternative investment products across the fixed-income and equity groups as well as PanAgora Asset Management Inc., a Putnam subsidiary offering quantitative strategies - Seven equity model-based separately managed accounts (SMAs) and six multi-asset model portfolios Administrative Services - Transfer agency, underwriting, distribution, shareholder services, and trustee and other fiduciary services
DISTRIBUTION Individual Retail Investors - A broad network of distribution relationships with unaffiliated broker dealers, financial planners, registered investment advisors and other financial institutions that distribute the Putnam Funds and defined contribution investment only offerings to their customers, which, in total, includes approximately 140,500 advisors⁽¹⁾ - Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents - Retail distribution channels are supported by Putnam's sales and relationship management team - Retirement plan sponsors and participants are supported by Putnam's dedicated defined contribution investment only professionals and through a relationship with Empower Retirement and other recordkeeping firms Institutional Investors - Supported by Putnam's dedicated account management, product management and client service professionals

- (1) As at December 31, 2020

Management's Discussion and Analysis

COMPETITIVE CONDITIONS

FINANCIAL SERVICES

The retirement and investment marketplaces are competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors and certain service and professional organizations. No one competitor or small number of competitors is dominant. Competition focuses on name recognition, service, technology, cost, variety of investment options, investment performance, product features, price and financial strength as indicated by ratings issued by nationally recognized agencies.

ASSET MANAGEMENT

The investment management business is competitive. Putnam competes with other providers of investment products and services, primarily based on the range of investment products offered, investment performance, distribution, scope and quality of shareholder and other services as well as general reputation in the marketplace. Putnam's investment management business is also influenced by general securities market conditions, government regulations, global economic conditions as well as advertising and sales promotional efforts. Putnam competes with other mutual fund firms and institutional asset managers that offer investment products similar to Putnam as well as products that Putnam does not offer. Putnam also competes with a number of mutual fund sponsors that offer their funds directly to the public. Conversely, Putnam generally offers its funds only through intermediaries.

Selected consolidated financial information – United States

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ^{(1) (4)}	\$ 20,582	\$ 24,138	\$ 19,480	\$ 93,479	\$ 70,475
Sales ^{(1) (4)}	27,439	27,987	31,781	136,884	163,087
Fee and other income ⁽⁴⁾	754	696	679	2,769	3,767
Base earnings ^{(1) (4)}	\$ 90	\$ 83	\$ 89	\$ 273	\$ 350
Items excluded from base earnings ⁽²⁾					
Actuarial assumption changes and other management actions ⁽²⁾	3	38	25	41	23
Market-related impact on liabilities ⁽²⁾	(1)	(1)	–	(19)	–
Net gain/charge on business dispositions ⁽²⁾	–	–	–	–	(199)
Transaction costs related to the acquisitions of Personal Capital and MassMutual ^{(2) (3)}	(47)	(31)	–	(78)	–
Revaluation of a deferred tax asset ^{(2) (6)}	196	–	(199)	196	(199)
Restructuring and integration costs ^{(2) (6)}	(33)	–	(36)	(33)	(36)
Net earnings (loss) – common shareholders ⁽⁴⁾	\$ 208	\$ 89	\$ (121)	\$ 380	\$ (61)
Total assets	\$ 208,580	\$ 97,104	\$ 85,612		
Proprietary mutual funds and institutional net assets ⁽¹⁾	284,251	276,401	257,301		
Total assets under management ⁽¹⁾	492,831	373,505	342,913		
Other assets under administration ⁽¹⁾	994,989	817,693	792,110		
Total assets under administration ⁽¹⁾	\$ 1,487,820	\$ 1,191,198	\$ 1,135,023		

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

(3) The transaction costs incurred to date related to the acquisitions of Personal Capital and the retirement services business of MassMutual are included in the U.S. Corporate business unit.

(4) For the twelve months ended December 31, 2019, premiums and deposits excluded the initial ceded premium of \$13,889 million (US\$10,365 million) related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

(5) For the twelve months ended December 31, 2019, fee and other income included a ceding commission of \$1,080 million (US\$806 million) related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

(6) Included in the U.S. segment are the results of the Reinsured Insurance & Annuity business unit, which reflects substantially all of the individual life insurance and annuity business which was sold, through indemnity reinsurance, to Protective Life effective June 1, 2019. Following the sale there were no additional sales, fee and other income and net earnings related to this business unit and premiums and deposits primarily relate to deposits received on separate accounts, with the economics ceded to Protective Life, resulting in no net earnings impact. Premiums and deposits for the three and twelve months ended December 31, 2020 were \$234 million and \$636 million respectively (\$107 million and \$347 million for the three months ended September 30, 2020 and December 31, 2019 respectively). The following table includes the results for the Reinsured Insurance & Annuity business unit for the twelve months ended December 31, 2019:

	For the twelve months ended Dec. 31 2019
Premiums and deposits	\$ 1,393
Sales	408
Fee and other income	1,157
Base earnings	63
Net earnings (loss) – common shareholders	(136)
Base earnings (US\$)	47
Net earnings (loss) – common shareholders (US\$)	(101)

Management's Discussion and Analysis

Base earnings ⁽¹⁾ and Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Base earnings (loss) ⁽¹⁾					
Financial Services	\$ 64	\$ 75	\$ 75	\$ 268	\$ 255
Asset Management	35	13	18	18	33
U.S. Corporate	(9)	(5)	(4)	(13)	(1)
Reinsured Insurance & Annuity Business	–	–	–	–	63
Base earnings (loss) ⁽¹⁾	\$ 90	\$ 83	\$ 89	\$ 273	\$ 350
Items excluded from base earnings (loss) ⁽²⁾					
Actuarial assumption changes and other management actions ⁽²⁾	\$ 3	\$ 38	\$ 25	\$ 41	\$ 23
Market-related impact on liabilities ⁽²⁾	(1)	(1)	–	(19)	–
Net gain/charge on business dispositions ⁽²⁾	–	–	–	–	(199)
Transaction costs related to the acquisitions of Personal Capital and MassMutual ^{(2) (3)}	(47)	(31)	–	(78)	–
Revaluation of a deferred tax asset ^{(2) (4)}	196	–	(199)	196	(199)
Restructuring and integration costs ^{(2) (4)}	(33)	–	(36)	(33)	(36)
Net earnings (loss) – common shareholders	\$ 208	\$ 89	\$ (121)	\$ 380	\$ (61)
Base earnings (loss) (US\$) ⁽¹⁾					
Financial Services (US\$)	\$ 49	\$ 56	\$ 57	\$ 200	\$ 193
Asset Management (US\$)	26	10	13	14	24
U.S. Corporate (US\$)	(7)	(3)	(2)	(9)	–
Reinsured Insurance & Annuity Business (US\$)	–	–	–	–	47
Base earnings (loss) (US\$) ⁽¹⁾	\$ 68	\$ 63	\$ 68	\$ 205	\$ 264
Items excluded from base earnings (loss) ⁽²⁾					
Actuarial assumption changes and other management actions (US\$) ⁽²⁾	\$ 2	\$ 29	\$ 19	\$ 31	\$ 18
Market-related impact on liabilities (US\$) ⁽²⁾	(1)	(1)	–	(15)	–
Net gain/charge on business dispositions ⁽²⁾	–	–	–	–	(148)
Transaction costs related to the acquisition of Personal Capital and MassMutual (US\$) ^{(2) (3)}	(36)	(24)	–	(60)	–
Revaluation of a deferred tax asset ^{(2) (4)}	151	–	(151)	151	(151)
Restructuring and integration costs ^{(2) (4)}	(25)	–	(28)	(25)	(28)
Net earnings (loss) (US\$) – common shareholders	\$ 159	\$ 67	\$ (92)	\$ 287	\$ (45)

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

(3) The transaction costs incurred to date related to the acquisitions of Personal Capital and the retirement services business of MassMutual are included in the U.S. Corporate business unit.

(4) For the twelve months ended December 31, 2020, the revaluation of a deferred tax asset of \$196 million (US\$151 million) and restructuring costs of \$29 million (US\$22 million) are included in the U.S. Corporate results. For the twelve months ended December 31, 2019, \$199 million (US\$151 million) and restructuring costs of \$36 million (US\$28 million) are included in the U.S. Corporate results.

2020 DEVELOPMENTS

• **COVID-19 Pandemic Impacts** – The Coronavirus Aid, Relief and Economic Security Act (the CARES Act) was enacted on March 27, 2020. Under the CARES Act, the U.S. Federal government authorized broad based economic relief and support for individuals and businesses, including changes to distribution and loan rules from employer retirement plans and Individual Retirement Accounts (IRAs) which are similar to the relief offered in prior disaster relief laws. The Company implemented the distribution and loan changes. The Internal Revenue Service (IRS) and the U.S. Department of Labor (DOL) subsequently issued an interpretive guidance on the CARES Act and the Company updated its CARES Act distribution and loan processes and procedures accordingly. The CARES Act distributions were allowed through December 31, 2020 and loans were allowed through September 22, 2020. The CARES Act did not prevent the Company from executing on its overall business strategy and growth objectives.

• During 2020, Putnam restructuring activities were mostly completed resulting in approximately US\$28 million in pre-tax annual operating expense savings to realign its resources to better position itself for current and future opportunities. These actions included technology modernization, product consolidation, a reduction in staff and facilities reorganization and resulted in restructuring charges which reduced net earnings in 2019 by \$36 million (US\$28 million). This charge was recorded in the U.S. Corporate business unit.

- During the fourth quarter of 2020, management revalued the deferred income tax asset pertaining to the Asset Management business unit as a result of Empower Retirement's acquisitions of MassMutual's retirement services business and Personal Capital. The acquisitions are expected to increase consolidated U.S. tax group income and thereby the ability to utilize the deferred income tax asset that was previously de-recognized. As a result, net earnings includes a recovery of the deferred tax asset of \$196 million (US\$151 million) in U.S. Corporate results. The deferred income tax asset de-recognition was originally reported in U.S. Corporate in the fourth quarter of 2019. The Empower Retirement acquisitions will also impact the allocation of state taxes between Empower Retirement to Putnam beginning in 2021, but with no net change to the total U.S. segment state taxes.

BUSINESS UNITS – UNITED STATES

FINANCIAL SERVICES

2020 DEVELOPMENTS

- COVID-19 Pandemic Impacts** – During the fourth quarter of 2020, Empower Retirement operations and technology functions maintained full execution as the market disruption created by the COVID-19 pandemic subsided. The Company maintained a nearly full work-at-home status across the entire enterprise throughout the quarter, including associates in North America and India. Call volumes and web traffic returned to normal levels. For the most part, retirement investors have not engaged in reactive selling with a significant majority of Empower Retirement plan participants making no change to their investments. The Company continued to see increased levels of interest in advisory and financial wellness offerings.

Empower Retirement and others in the retirement industry lobbied for, and received, relief from federal government regulators to help individuals who needed to access their retirement savings in the event of financial hardships. Following the passage of the CARES Act, Empower Retirement implemented new processes and waived fees on all new retirement plan loans and hardship withdrawals to support these needs. Empower Retirement did not charge origination fees on any new plans and suspended charges for all hardship withdrawals. These changes covered all tax-qualified workplace retirement plans administered by Empower Retirement that permit such distributions, and include new provisions allowed for under the CARES Act. Beginning in the third quarter of 2020, Empower Retirement reinstated fees on certain new retirement plan loans and hardship withdrawals.

- On August 17, 2020, Empower Retirement completed the acquisition of Personal Capital, a hybrid wealth manager that combines a leading-edge digital experience with personalized advice delivered by human advisors. Under the terms of the agreement, Empower Retirement acquired 100% of the equity of Personal Capital for net consideration of US\$813 million on closing and deferred consideration of US\$20 million, which represents management's best estimate and could increase up to US\$175 million subject to achievement of target growth objectives. The upfront consideration was funded with cash on hand and US\$500 million in debt financing. Financial Services' 2020 year-to-date results include the results of Personal Capital from the August 17, 2020 acquisition date.

Empower Retirement expects to incur integration expenses of US\$57 million pre-tax, of which US\$3 million were incurred to date (US\$2 million post-tax), with the integration of Personal Capital expected to be completed in the first quarter of 2022. During the twelve months ended December 31, 2020, the Company incurred transaction expenses of US\$22 million pre-tax (US\$20 million post-tax) related to the Personal Capital acquisition, which are included in the U.S. Corporate business unit.

Refer to the "Transactions with Related Parties" section of this document for additional information regarding the acquisition.

- On December 31, 2020, Empower Retirement acquired the retirement services business of MassMutual, via indemnity reinsurance, strengthening Empower Retirement's position as the second largest player in the U.S. retirement market. Concurrent to the acquisition of the MassMutual retirement services business, Empower Retirement is serving as recordkeeper for MassMutual's defined contribution plan. The Company paid a ceding commission of US\$2.3 billion, net of working capital adjustments, to MassMutual, and funded the transaction with existing cash, short-term debt and US\$1.5 billion in long-term debt issued on September 17, 2020.

This transaction increases the synergy potential of Empower Retirement's acquisition of Personal Capital across a larger combined business. In addition, Empower Retirement and MassMutual intends to enter into a strategic partnership through which digital insurance products offered by Haven Life Insurance Agency, LLC and MassMutual's voluntary insurance and lifetime income products will be made available to customers of Empower Retirement and Personal Capital.

Empower Retirement anticipates realizing cost synergies through the migration of the MassMutual's retirement services business onto Empower Retirement's recordkeeping platform. Run rate cost synergies are expected to be US\$160 million pre-tax at the end of integration in 2022. Revenue synergies in 2022 are expected to be US\$30 million pre-tax and continue to grow beyond 2022.

Empower Retirement expects to incur integration and restructuring expenses of US\$125 million pre-tax, of which US\$29 million pre-tax (US\$23 million post-tax), were recognized in the fourth quarter of 2020. Empower Retirement incurred transaction expenses of US\$46 million pre-tax (US\$36 million post-tax) in the fourth quarter of 2020 (US\$51 million pre-tax and US\$40 million post-tax for the twelve months ended December 31, 2020) related to the MassMutual transaction. These costs are included in the U.S. Corporate business unit. The integration is expected to be completed within 18 months following closing.

- On November 27, 2020, Empower Retirement acquired the retirement business of Fifth Third Bank. The transaction is not expected to have a material impact on Empower Retirement's financial results.
- Subsequent to the fourth quarter of 2020, on January 6, 2021, Empower Retirement announced an intent to acquire the retirement business of Truist Bank. The transaction, which is expected to close in the first quarter of 2021, is not expected to have a material impact on Empower Retirement's financial results.

Management's Discussion and Analysis

- Empower Retirement participant accounts were 11.9 million at December 31, 2020, including 2.5 million participant accounts from the MassMutual transaction, up from 9.4 million at December 31, 2019.
- Empower Retirement assets under administration were US\$958 billion at December 31, 2020, up from US\$673 billion at December 31, 2019, primarily due to the acquisitions of Personal Capital and the retirement services business of MassMutual as well as higher average equity markets. Assets under administration related to MassMutual were US\$190 billion and Personal Capital assets under management were US\$16 billion at December 31, 2020.
- During 2020, the Company received the following awards and rankings:
 - In July 2020, Empower Retirement was named the 2020 Retirement Leader of the Year in the annual Mutual Fund Industry Awards, organized by Pageant Media. Retirement Leader of the Year is awarded to a firm that has made a key impact on growing retirement assets through unique

retirement solutions, marketing campaigns and significant contributions to the retirement industry at large.

- In October 2020, PLANADVISER named Empower Retirement the best in the country among recordkeepers for the ninth consecutive year on "Value for Price".
- In PlanSponsor's annual recordkeeping survey, Empower Retirement ranked 2nd nationally in Total 401(k) Assets, with \$493.6 billion as of July 15th, 2020. In the same survey, Empower ranked 3rd in Total 457 Plan Assets with \$76.1 billion.
- In September 2020, Empower Retirement was awarded "gold medals" from Financial Advisor IQ in six categories, including "Best Client Service" and "Best Price".
- In September 2020, Investment News selected Empower Retirement as a finalist for its 2020 Excellence in Diversity and Inclusion Awards.
- In July 2020, Empower Retirement was named "Best Place to Work for Disability Inclusion" using the Disability Equality Index, sponsored by the American Association of People with Disabilities.

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ^{(1) (2)}	\$ 3,505	\$ 5,665	\$ 3,150	\$ 16,979	\$ 11,783
Sales ^{(1) (3)}	10,596	9,621	15,798	61,020	105,380
Fee and other income	428	395	376	1,567	1,428
Base earnings ⁽¹⁾	\$ 64	\$ 75	\$ 75	\$ 268	\$ 255
Items excluded from base earnings ⁽⁴⁾					
Actuarial assumption changes and other management actions ⁽⁴⁾	3	38	25	41	23
Market-related impacts on liabilities ⁽⁴⁾	(1)	(1)	—	(19)	—
Integration costs ⁽⁴⁾	(4)	—	—	(4)	—
Net earnings – common shareholders ⁽⁵⁾	\$ 62	\$ 112	\$ 100	\$ 286	\$ 278
Premiums and deposits (US\$) ^{(1) (2)}	\$ 2,696	\$ 4,260	\$ 2,386	\$ 12,701	\$ 8,877
Sales (US\$) ^{(1) (3)}	8,151	7,234	11,968	45,641	79,353
Fee and other income (US\$)	329	297	285	1,171	1,076
Base earnings (US\$) ⁽¹⁾	\$ 49	\$ 56	\$ 57	\$ 200	\$ 193
Items excluded from base earnings (US\$) ⁽⁴⁾					
Actuarial assumption changes and other management actions (US\$) ⁽⁴⁾	2	29	19	31	18
Market-related impacts on liabilities (US\$) ⁽⁴⁾	(1)	(1)	—	(15)	—
Integration costs (US\$) ⁽⁴⁾	(3)	—	—	(3)	—
Net earnings – common shareholders (US\$) ⁽⁵⁾	\$ 47	\$ 84	\$ 76	\$ 213	\$ 211

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) For the three months and twelve months ended December 31, 2020, premiums and deposits included US\$46 million and US\$148 million, respectively, relating to the retained policies (US\$54 million and US\$166 million for the three and twelve months ended December 31, 2019, US\$31 million for the three months ended September 30, 2020).

(3) For the three months and twelve months ended December 31, 2020, sales included US\$0.2 billion and US\$1.3 billion, respectively, relating to Putnam managed funds sold on the Empower Retirement platform (US\$0.3 billion and US\$1.1 billion for the three and twelve months ended December 31, 2019, and US\$0.2 billion for the three months ended September 30, 2020).

(4) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

(5) For the three months and twelve months ended December 31, 2020, net earnings included US\$3 million and US\$15 million, respectively, relating to the retained policies (US\$19 million net loss and US\$6 million net earnings for the three and twelve months ended December 31, 2019, and US\$3 million for the three months ended September 30, 2020).

Premiums and deposits

Premiums and deposits for the fourth quarter of 2020 of US\$2.7 billion increased by US\$0.3 billion compared to the same quarter last year, primarily due to higher premiums from existing Empower Retirement participants.

Premiums and deposits for the twelve months ended December 31, 2020 increased by US\$3.8 billion to US\$12.7 billion compared to the same period last year, primarily due to higher premiums and deposits transferred in from assets under administration and existing Empower Retirement participants.

Premiums and deposits in the fourth quarter of 2020 decreased by US\$1.6 billion compared to the previous quarter, primarily due to the higher deposits transferred in from assets under administration and existing Empower Retirement participants.

Sales

Sales in the fourth quarter of 2020 decreased by US\$3.8 billion to US\$8.2 billion compared to the same quarter last year, primarily due to a decrease in Empower Retirement sales across all plan sizes, partially offset by Personal Capital related sales.

For the twelve months ended December 31, 2020, sales decreased by US\$33.7 billion to US\$45.6 billion compared to the same period last year. Included in the sales for the twelve months ended December 31, 2019 was one large sale relating to a new client with approximately 200,000 participants. Excluding the impact of this sale, Empower Retirement large plan sales and Personal Capital related sales increased, partially offset by decreases in Empower Retirement mid and small sized plan sales. Large plan sales can be highly variable from period to period and tend to be lower margin; however, contribute to covering fixed overhead costs.

Sales in the fourth quarter of 2020 increased by US\$0.9 billion compared to the previous quarter, primarily due to increases in Personal Capital related sales and Empower Retirement small plan sales, partially offset by a decrease in Empower Retirement mid-sized plans.

Empower Retirement – assets under administration (US\$)

	December 31	
	2020	2019
General account – fixed options	\$ 36,590	\$ 13,532
Segregated funds – variable options	87,578	19,504
Proprietary mutual funds ⁽¹⁾	50,232	30,949
Unaffiliated retail investment options & administrative services only	783,456	609,316
	\$ 957,856	\$ 673,301

(1) At December 31, 2020, proprietary mutual funds included US\$16.8 billion in Putnam managed funds (US\$13.7 billion at December 31, 2019).

Empower Retirement customer account values at December 31, 2020 increased by US\$284.6 billion compared with December 31, 2019, primarily due to the acquisitions of MassMutual's retirement services business and Personal Capital, which added US\$190.1 billion and US\$16.3 billion of assets under administration. Favourable equity market impacts also contributed to the increase.

Fee and other income

Fee income is derived primarily from assets under management, assets under administration, shareholder servicing fees, administration and recordkeeping services and investment advisory services. Generally, fees are earned based on assets under management, assets under administration or the number of plans and participants for which services are provided.

Fee and other income for the fourth quarter of 2020 of US\$329 million increased by US\$44 million compared to the same quarter last year, primarily due to Personal Capital related fee income of US\$28 million and higher average equity markets.

For the twelve months ended December 31, 2020, fee and other income increased by US\$95 million to US\$1,171 million compared to the same period last year, primarily due to Personal Capital related fee income of US\$41 million, growth in participants and higher average equity markets.

Fee and other income for the fourth quarter of 2020 increased by US\$32 million compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

Base earnings

Base earnings for the fourth quarter of 2020 of US\$49 million decreased by US\$8 million compared to the same quarter last year. The decrease was primarily due to Personal Capital related net loss of US\$7 million and lower contributions from investment experience, partially offset by net business growth.

For the twelve months ended December 31, 2020, base earnings increased by US\$7 million to US\$200 million compared to the same period last year. The increase was primarily due to higher contributions from investment experience and net business growth, partially offset by the Personal Capital related net loss of US\$12 million and less favorable mortality experience.

Base earnings for the fourth quarter of 2020 decreased by US\$7 million compared to the previous quarter, primarily due to higher operating expenses and an increase in the Personal Capital related net loss, partially offset by higher contributions from investment experience and net business growth.

Net earnings

Net earnings for the fourth quarter of 2020 of US\$47 million decreased by US\$29 million compared to the same quarter last year. The decrease was primarily due to the same reasons discussed for base earnings and integration costs. In addition, included in the fourth quarter of 2019 was the positive impact of a partial settlement of an employee pension plan.

For the twelve months ended December 31, 2020, net earnings increased by US\$2 million to US\$213 million compared to the same period last year. The increase was primarily due to the same reasons discussed for base earnings and higher contributions from insurance contract liability basis changes, partially offset by market volatility creating hedge ineffectiveness losses related to guaranteed lifetime withdrawal benefits and integration costs. Included in the twelve months ended December 31, 2019 was the positive impact of a partial settlement of an employee pension plan.

Net earnings for the fourth quarter of 2020 decreased by US\$37 million compared to the previous quarter, primarily due to the same reasons as discussed for base earnings, lower contributions from insurance contract liability basis changes and integration costs.

OUTLOOK – FINANCIAL SERVICES

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

As the second largest recordkeeping provider in the U.S., Empower Retirement is positioned for significant growth opportunities with expertise and diversification across all plan types, company sizes and market segments. The acquisition of MassMutual's retirement services business strengthens Empower Retirement's position as the second largest player in the U.S. retirement market and makes Empower Retirement first in the core marketplace. Financial Services business unit continually examines opportunities to structure products and develop strategies to stimulate growth in assets under management.

The acquisition of Personal Capital, a hybrid wealth manager that combines a leading-edge digital experience with personalized advice delivered by human advisors, brings together Empower Retirement's leading retirement plan services and integrated financial tools, and Personal Capital's rapidly growing, digitally oriented personal wealth management platform.

Empower Retirement anticipates realizing cost synergies through the migration of MassMutual's retirement services business onto Empower Retirement's recordkeeping platform. Further, the MassMutual acquisition increases the synergy potential of Empower Retirement's acquisition of Personal Capital across a larger combined business.

In 2021, Empower Retirement's strategies to drive sales growth will continue to include active marketing of the brand, investing in product differentiation and offering a best-in-class service model. In 2020, service enhancements were made to this model including standardizing and improving client-facing tools, optimizing advisor relationship management and client alignment as well as adopting best practices for participant communications. In 2021, investments will be made in integrating the previously referenced businesses as well as continue investment to improve the customer web experiences, including adding innovative capabilities and ease of service products. These efforts are expected to increase customer retention and ultimately increase participant retirement savings.

ASSET MANAGEMENT

2020 DEVELOPMENTS

- **COVID-19 Pandemic Impacts** – At Putnam and across the broader asset management industry during the first quarter of 2020, client channels experienced reduced gross sales and elevated redemptions given concerns about the breadth and severity of the pandemic and its longer-term effect on an array of economic factors, including corporate earnings. On the investment management front, Putnam's work on risk profiles and portfolio construction has led to solid relative performance across asset classes. Early in the second quarter of 2020, redemptions slowed and turned back into positive net flows, which positioned the Company well for the market recovery that occurred throughout the remainder of 2020.
- Putnam's ending assets under management (AUM) at December 31, 2020 of US\$191.6 billion increased by US\$9.8 billion compared to the same period last year, while average AUM for the twelve months ended December 31, 2020 of US\$173.8 billion increased by US\$0.6 billion compared to the same period last year. For the twelve months ended December 31, 2020, mutual fund sales increased by US\$2.0 billion compared to the same period last year.
- Putnam continues to sustain strong investment performance relative to its peers. As of December 31, 2020, approximately 76% of Putnam's fund assets performed at levels above the Lipper median on a three-year basis, and approximately 91% on a five-year basis. In addition, 36% and 41% of Putnam's fund assets were in the Lipper top quartile on a three- and five-year basis, respectively. Putnam has 26 funds currently rated 4-5 stars by Morningstar.
- For the 31st consecutive year, Putnam has been recognized by DALBAR Inc. for mutual fund service quality. This recognition includes Putnam being named as a DALBAR Mutual Fund Service Award winner for 29 of those years. Additionally, Putnam has been named the sole recipient of DALBAR's Total Client Experience Award recognizing overall mutual fund customer service quality for the past ten years.

Management's Discussion and Analysis

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Sales ⁽¹⁾	\$ 16,843	\$ 18,366	\$ 15,983	\$ 75,864	\$ 57,299
Fee income					
Investment management fees	\$ 203	\$ 206	\$ 206	\$ 801	\$ 813
Performance fees	32	2	2	30	(10)
Service fees	36	37	37	148	149
Underwriting & distribution fees	55	56	58	223	230
Fee income	\$ 326	\$ 301	\$ 303	\$ 1,202	\$ 1,182
Core net earnings (loss) ⁽¹⁾	\$ 49	\$ 25	\$ 28	\$ 68	\$ 78
Less: Financing and other expenses ⁽¹⁾	(14)	(12)	(10)	(50)	(45)
Net earnings (loss) ⁽²⁾	\$ 35	\$ 13	\$ 18	\$ 18	\$ 33
Sales (US\$) ⁽¹⁾	\$ 12,957	\$ 13,809	\$ 12,108	\$ 56,541	\$ 43,185
Fee income (US\$)					
Investment management fees (US\$)	\$ 157	\$ 155	\$ 155	\$ 599	\$ 611
Performance fees (US\$)	25	1	2	23	(6)
Service fees (US\$)	28	28	28	111	112
Underwriting & distribution fees (US\$)	42	42	44	166	173
Fee income (US\$)	\$ 252	\$ 226	\$ 229	\$ 899	\$ 890
Core net earnings (loss) (US\$) ⁽¹⁾	\$ 37	\$ 19	\$ 21	\$ 51	\$ 59
Less: Financing and other expenses (US\$) ⁽¹⁾	(11)	(9)	(8)	(37)	(35)
Net earnings (loss) (US\$) ⁽²⁾	\$ 26	\$ 10	\$ 13	\$ 14	\$ 24
Pre-tax operating margin ⁽¹⁾	20.6%	11.9%	7.2%	8.6%	8.1%
Average assets under management (US\$) ⁽¹⁾	\$ 185,425	\$ 176,726	\$ 178,023	\$ 173,752	\$ 173,159

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) For the Asset Management business unit, there were no differences between net earnings (loss) and base earnings (loss) in the periods presented.

Sales

Sales in the fourth quarter of 2020 increased by US\$0.8 billion to US\$13.0 billion compared to the same quarter last year, primarily due to an increase in institutional sales of US\$2.3 billion offset by a decrease in mutual fund sales of US\$1.4 billion.

For the twelve months ended December 31, 2020, sales increased by US\$13.4 billion to US\$56.5 billion compared to the same period last year, primarily due to an increase in mutual fund sales of US\$2.0 billion and an increase in institutional sales of US\$11.3 billion.

Sales in the fourth quarter of 2020 decreased by US\$0.9 billion compared to the previous quarter, primarily due to a US\$0.5 billion decrease in mutual fund sales and US\$0.3 billion decrease in institutional sales.

Fee income

Fee income is derived primarily from investment management fees, performance fees, transfer agency and other service fees, as well as underwriting and distribution fees. Generally, fees are earned based on AUM and may depend on financial markets, the relative performance of Putnam's investment products, the number of retail accounts and sales. Performance fees are generated on certain mutual funds and institutional portfolios and are generally based on a rolling 36-month performance period for mutual funds and a 12-month performance period for institutional portfolios. Performance fees on mutual funds are symmetric, and as a result, can be positive or negative.

Fee income for the fourth quarter of 2020 increased by US\$23 million to US\$252 million compared to the same quarter last year, primarily due to higher performance fees.

For the twelve months ended December 31, 2020, fee income increased by US\$9 million to US\$899 million compared to the same period last year. The increase was primarily due to higher performance fees, partially offset by lower investment management and underwriting and distribution fees.

Fee income for the fourth quarter of 2020 increased by US\$26 million compared to the previous quarter, primarily due to higher performance fees.

Management's Discussion and Analysis

Core net earnings and net earnings

Core net earnings for the fourth quarter of 2020 increased by US\$16 million to US\$37 million compared to the same quarter last year, primarily due to higher performance fee income and net investment income. In the fourth quarter of 2020, net earnings, including financing and other expenses, were US\$26 million compared to US\$13 million for the same quarter last year. Financing and other expenses for the fourth quarter of 2020 increased by US\$3 million to US\$11 million compared to the same quarter last year, primarily due to allocated expenses from affiliates.

For the twelve months ended December 31, 2020, core net earnings were US\$51 million compared to a core net earnings of US\$59 million for the same period last year. Core net earnings decreased by US\$8 million primarily due to higher sales and compensation related expenses, partially offset by higher performance fee income. Net earnings, including financing and other expenses, for the twelve months ended December 31, 2020,

were US\$14 million compared to US\$24 million for the same period last year. Financing and other expenses for the twelve months ended December 31, 2020 increased by US\$2 million to US\$37 million compared to the same period last year, primarily due to allocated expenses from affiliates, partially offset by lower financing costs.

Core net earnings for the fourth quarter of 2020 were US\$37 million compared to core net earnings of US\$19 million for the previous quarter, an increase of US\$18 million, primarily due to higher performance fee income and higher net investment income, partially offset by higher sales and compensation related expenses. Net earnings, including financing and other expenses, for the fourth quarter of 2020, were US\$26 million compared to US\$10 million for the previous quarter. Financing and other expenses for the fourth quarter of 2020 increased by US\$2 million compared to the previous quarter, primarily due to allocated expenses from affiliates and higher taxes.

ASSETS UNDER MANAGEMENT

Assets under management (US\$) ⁽¹⁾

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Beginning assets	\$ 179,018	\$ 168,526	\$ 174,191	\$ 181,724	\$ 160,200
Sales – Mutual funds	6,389	6,897	7,798	29,509	27,474
Redemptions – Mutual funds	(7,155)	(6,210)	(6,316)	(33,492)	(25,031)
Net asset flows – Mutual funds	(766)	687	1,482	(3,983)	2,443
Sales – Institutional	6,568	6,912	4,310	27,032	15,711
Redemptions – Institutional	(6,791)	(5,542)	(5,587)	(29,735)	(22,081)
Net asset flows – Institutional	(223)	1,370	(1,277)	(2,703)	(6,370)
Net asset flows – Total	(989)	2,057	205	(6,686)	(3,927)
Impact of market/performance	13,525	8,435	7,328	16,516	25,451
Ending assets	\$ 191,554	\$ 179,018	\$ 181,724	\$ 191,554	\$ 181,724
Average assets under management					
Mutual funds	90,164	86,808	86,824	85,687	83,096
Institutional assets	95,261	89,918	91,199	88,065	90,063
Total average assets under management	\$ 185,425	\$ 176,726	\$ 178,023	\$ 173,752	\$ 173,159

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

Average AUM for the three months ended December 31, 2020 were US\$185.4 billion, an increase of US\$7.4 billion or 4% compared to the same quarter last year, primarily due to the impact of markets and cumulative assets inflows. Net asset outflows for the fourth quarter of 2020 were US\$1.0 billion compared to net assets inflows of US\$0.2 billion for the same quarter last year. In-quarter mutual fund net asset outflows were US\$0.8 billion and institutional net asset outflows were US\$0.2 billion.

Average AUM for the twelve months ended December 31, 2020 increased by US\$0.6 billion to US\$173.8 billion compared to the same period last year, primarily due to cumulative assets inflows in mutual funds, partially offset by cumulative assets outflows in institutional funds. Net asset outflows for the twelve months ended

December 31, 2020 were US\$6.7 billion compared to US\$3.9 billion for the same period last year. Year-to-date mutual fund net asset outflows of US\$4.0 billion and institutional net asset outflows were US\$2.7 billion. Within the institutional category, Putnam's valuation oriented quantitative manager has been experiencing outflows for several quarters. While their performance in this category has been comparable to peers, this style of investing has been in outflows across the industry. During these same time periods, Putnam's active institutional mandates have experienced positive flows.

Average AUM for the three months ended December 31, 2020 increased by US\$8.7 billion compared to the previous quarter, primarily due to impact of market movements.

OUTLOOK – ASSET MANAGEMENT

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

Putnam remains committed to providing strong, long-term risk-adjusted investment performance across asset classes for its clients and investors in the mutual fund, institutional and retirement marketplaces.

In 2021, Putnam will continue to focus efforts on driving growth and market share through new sales and asset retention in all markets it serves including Global Institutional, PanAgora (Putnam's quantitative institutional manager), U.S. Retail and Defined Contribution Investment Only, while maintaining its industry recognized reputation for service excellence.

Innovation will remain a key differentiator in 2021, as Putnam further develops and refines its product offerings, service features and operational functions, while bolstering its corporate and business/product brand image with a broad range of constituents. Putnam continues to increasingly incorporate digital technology throughout its business to drive greater efficiencies and create business opportunities.

Putnam will remain focused on growth of revenues and assets in 2021, while at the same time managing firm-wide expenses, as the firm seeks to further build a scalable, profitable asset management franchise.

EUROPE

The Europe segment is comprised of three distinct business units serving customers in the United Kingdom, Ireland and Germany and offers protection and wealth management products, including payout annuity products. The U.K. and German business units operate under the Canada Life brand and Irish business unit operates under the Irish Life brand.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Impact of currency movement is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

BUSINESS PROFILE

UNITED KINGDOM

The core products offered by the U.K. business unit are bulk and individual payout annuities, equity release mortgages, investments (including life bonds, retirement drawdown and pension), individual protection and group insurance. These products are distributed through independent financial advisors and employee benefit consultants in the U.K. and Isle of Man.

UNITED STATES CORPORATE

U.S. Corporate consists of items not associated directly with or allocated to the United States business units, including the impact of certain non-continuing items related to the U.S. segment.

In the fourth quarter of 2020, net earnings were US\$86 million compared to a net loss of US\$181 million for the same period in 2019. Net earnings increased by US\$267 million primarily due to a revaluation of a deferred tax asset of US\$151 million which was de-recognized in the fourth quarter of 2019, partially offset by transaction costs of US\$36 million and restructuring costs of US\$22 million related to the acquisitions of Personal Capital and the retirement services business of MassMutual. In addition, included in the fourth quarter of 2019 were restructuring costs of US\$28 million related to the Asset Management business unit.

For the twelve months ended December 31, 2020, net earnings of US\$60 million increased by US\$239 million compared to the same period in 2019. The increase was primarily due to the same reasons discussed for the in-quarter results.

In the fourth quarter of 2020, net earnings were US\$86 million compared to a net loss of US\$27 million in the previous quarter. Net earnings increased by US\$113 million primarily due to revaluation of a previously de-recognized deferred tax asset, partially offset by transaction and restructuring costs related to the acquisitions of Personal Capital and the retirement services business of MassMutual.

IRELAND

The core products offered by Irish Life in Ireland are savings and investments, individual and group life insurance, health insurance and pension products. These products are distributed through independent brokers, a direct sales force and tied agent bank branches. Irish Life Health offers individual and corporate health plans, distributed through independent brokers and direct channels. Irish Life Investment Managers (ILIM) is one of the Company's fund management operations in Ireland. In addition to managing assets on behalf of companies in the Lifeco group, ILIM also manages assets for a wide range of institutional and retail clients, occupational defined benefit and defined contribution pension schemes, large multinational corporations, charities and domestic companies.

GERMANY

The German operation focuses on Company and Individual pension, and individual protection products that are distributed through independent brokers and multi-tied agents.

The Company continues to expand its presence in its business units by focusing on the introduction of innovative products and services, the quality of its service offerings as well as the enhancement of distribution capabilities and intermediary relationships.

MARKET OVERVIEW

PRODUCTS AND SERVICES

EUROPE
MARKET POSITION U.K. - Group life market share 24% ⁽¹⁾ - Group income protection market share 17% ⁽¹⁾ - Payout annuities market share 12% (Advisor only) ⁽²⁾ - A market leading international life company selling into the U.K. market, with over 30% market share ⁽³⁾ - Among the top five in the onshore unit-linked single premium bond market, with 13% market share (Advisor only) ⁽³⁾ - An award winning competitor in the equity release market with a market share of 11% ⁽⁶⁾ Ireland - Life assurance company market share 43% ⁽⁴⁾ - Retail life and pensions market share 27% ⁽⁴⁾ - Group pensions, group risk and corporate annuities market share 59% ⁽⁴⁾ - ILIM is one of the largest institutional fund managers in Ireland with €87 billion assets under management ⁽⁵⁾ - Third largest health insurance business through Irish Life Health ⁽¹⁾ Germany 3% share of the broker market ⁽³⁾
PRODUCTS AND SERVICES U.K. - Individual and bulk payout annuities - Fixed term annuities - Individual savings and investments (retirement drawdown & pension, onshore & international bonds and collective investment funds) - Group and individual life insurance - Group income protection (disability) - Group and individual critical illness - Equity release mortgages Ireland - Individual and group risk & pensions - Individual and bulk payout annuities - Health insurance - Wealth management services - Individual savings and investment - Institutional investment management Germany - Pensions - Income protection (disability) - Critical illness - Variable annuities (GMWB) - Individual life insurance

EUROPE (CONT'D)
DISTRIBUTION U.K. - Financial advisors - Private banks - Employee benefit consultants Ireland - Independent brokers - Pensions and investment consultants - Direct sales force - Tied bank branch distribution with various Irish banks Germany - Independent brokers - Multi-tied agents

(1) As at December 31, 2019

(2) Market share based on second quarter 2020 data through financial advisors, restricted whole market advisors and non-advised distributor.

(3) Market share shows a year-to-date position based on year-to-date sales at September 30, 2020.

(4) As at June 30, 2020

(5) As at December 31, 2020

(6) Equity Release Council market statistics for first quarter 2020 to third quarter 2020.

COMPETITIVE CONDITIONS

UNITED KINGDOM

In the U.K., the Company has strong market positions for payout annuities, wealth management and group risk, where it is a market leader. Combined sales from the onshore and international wealth management businesses put Canada Life as one of the top single investment premium bond providers in the U.K.

The Company has benefited over recent years from an increase in the proportion of customers seeking the best price in the open market. This has increased the proportion of customers buying annuities through financial advisors, which are the Company's primary distribution channel. The Company continues to offer both standard and enhanced annuities as well as investment based pension and drawdown products for customers wanting to take advantage of the greater pension flexibility introduced in recent years. The Company expects further growth in the retirement retail market and is well placed to continue to grow in this market, supported by its equity release mortgage expertise which is an important part of the retirement market and an area of growth. The Company also offers bulk annuities aimed at trustees of defined benefits plans who want to insure pension annuities in payment. This is a large market and demand from trustees remains strong. The market is expected to grow as pension plan funding improves and trustees consider ways to reduce risk. With expertise and experience in longevity and investment products, the Company is well placed to continue to grow bulk annuity new business.

In international wealth management operations, the Company continued to focus efforts on increasing sales within the retail market while maintaining our strong presence in the institutional sector of the market. Future estate planning continues to be an area of focus for U.K. advisors and Canada Life International remains one of the leading companies in this sector of the market.

IRELAND

The Company continues to be the largest life assurance company in Ireland with a market share of 43% as at June 30, 2020. Irish Life follows a multi-channel distribution strategy with a large broker distribution network, the largest direct sales force and the largest Bancassurance distribution network where it has tied relationships with five banks.

Irish Life Investment Managers (ILIM) is one of Ireland's largest institutional fund managers with approximately €87 billion of assets under management, including funds managed for other companies within the Lifeco group, as at December 31, 2020. As market leader in the domestic market ILIM continued to expand its capabilities and solutions for Responsible Investments with multiple awards and ratings both in public markets and in its Real Estate offerings. It has also continued to evolve its Asset and Liability Management, Liability-Driven Investments and Bulk Annuity services to large defined benefit pension schemes.

Setanta Asset Management, a subsidiary of the Company, manages assets for a number of institutional clients, both third-party institutions as well as for companies in the Lifeco group and has approximately €12 billion of assets under management as at December 31, 2020.

The Company operates its Irish health insurance business under the Irish Life Health brand, where it has a top three position.

The Company also owns a number of employee benefits and wealth consultancy businesses in Ireland.

GERMANY

The Company has a leading position among providers of products to the German independent intermediary market. The Company is among the top six providers in the independent intermediary market through continuous product, technology and service improvements. The low interest rate environment for traditional German insurance products has been challenging leading to increased competition in the Canada Life hybrid and lighter guarantee product categories.

Management's Discussion and Analysis

Selected consolidated financial information – Europe

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾	\$ 7,896	\$ 6,114	\$ 7,925	\$ 32,621	\$ 35,351
Sales ⁽¹⁾	6,874	5,313	6,566	28,996	31,976
Fee and other income	351	342	377	1,366	1,539
Base earnings ⁽¹⁾	\$ 195	\$ 182	\$ 317	\$ 688	\$ 796
Items excluded from base earnings ⁽²⁾					
Actuarial assumption changes and other management actions ⁽²⁾	78	22	19	188	283
Market-related impacts on liabilities ⁽²⁾	(20)	18	(9)	(57)	(83)
Net gain/charge on business dispositions ⁽²⁾	–	94	8	94	8
Net earnings – common shareholders	\$ 253	\$ 316	\$ 335	\$ 913	\$ 1,004
Total assets	\$ 189,351	\$ 180,091	\$ 174,121		
Proprietary mutual funds and institutional net assets ⁽¹⁾	59,381	58,056	56,261		
Total assets under management ⁽¹⁾	248,732	238,147	230,382		
Other assets under administration ⁽¹⁾	10,871	10,420	48,738		
Total assets under administration ^{(1) (3)}	\$ 259,603	\$ 248,567	\$ 279,120		

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

(3) At December 31, 2020, total assets under administration excludes \$7.4 billion of assets managed for other business units within the Lifeco group of companies (\$7.3 billion at September 30, 2020 and \$8.4 billion at December 31, 2019).

Base earnings ⁽¹⁾ and Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
United Kingdom	\$ 96	\$ 78	\$ 233	\$ 334	\$ 503
Ireland	62	70	52	212	166
Germany	41	37	34	155	136
Europe Corporate	(4)	(3)	(2)	(13)	(9)
Base earnings ⁽¹⁾	\$ 195	\$ 182	\$ 317	\$ 688	\$ 796
United Kingdom	\$ 156	\$ 67	\$ 206	\$ 423	\$ 566
Ireland	54	196	88	335	279
Germany	47	56	35	168	160
Europe Corporate	(4)	(3)	6	(13)	(1)
Net earnings – common Shareholders	\$ 253	\$ 316	\$ 335	\$ 913	\$ 1,004

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

2020 DEVELOPMENTS

- **COVID-19 Pandemic Impacts** – The European businesses in the U.K., Ireland and Germany focused on supporting customers, communities and employees by providing pensions, protection and wealth management solutions for their financial, physical and mental well-being during this unprecedented time. Products, services and support are being delivered digitally to promote physical distancing and help keep customers, advisors and employees safe.

On October 8, 2020, Canada Life U.K. reopened its real estate fund following a period of valuation uncertainty in the real estate industry caused by COVID-19. The suspension period was introduced in March following advice from the independent valuers that it was not possible to provide accurate and reliable valuations. On October 20, 2020, Irish Life removed deferral periods from its small U.K. and European property funds. The deferral period for redemptions and transfers for Irish Life's pension property fund is under review following the removal of third party appraisal uncertainty clauses in the Irish property market. The deferral period remains in place for the smaller fund focused on individual clients. Processes remain in place to facilitate hardship, death claims and certain other withdrawals as required for these funds.

- On January 31, 2020, the U.K. left the European Union (EU) and was in a transition period that ended on December 31, 2020. During December of 2020, a comprehensive trading agreement was made between the EU and U.K. which is now in force.
- On August 4, 2020, Irish Life completed the previously announced sale of Irish Progressive Services International Limited (IPSI), a wholly-owned subsidiary, whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ group of companies. The net gain resulting from the transaction was \$94 million post-tax.
- As of December 31, 2020, the Company has largely completed the Canada Life U.K. restructuring program with £18 million achieved to date, compared to targeted reductions of £20 million pre-tax. The expense reductions have come from various sources including systems and process improvements and a reduction in headcount.
- During 2020, the Company completed a number of acquisitions listed below. While individually the acquisitions are not material to the Company's financial results, they position the Europe segment for growth.
 - On February 3, 2020, Irish Life, through its subsidiary Invesco Limited, completed the acquisition of Acumen & Trust DAC, an Irish financial services consultancy firm expanding into the areas of employee benefits consulting and individual financial advice.
 - On March 2, 2020, Irish Life acquired Conexim Advisors Limited (Conexim), which provides access to funds, equities, bonds and exchange traded funds across all major markets through an independent platform. Conexim provides its services through financial advisors who provide financial and investment advice to individual and corporate clients.
 - On May 1, 2020, Irish Life completed the acquisition of APT Workplace Pensions Limited, which specializes in corporate pension consultancy for multi-national and indigenous corporate clients, and APT Wealth Management Limited, which provides private wealth management to individuals.
 - On July 1, 2020, Irish Life completed the acquisition of Clearview Investments & Pensions Limited, which provides private wealth management to individuals.
 - On December 7, 2020, Irish Life announced it had entered into an agreement to acquire Harvest Financial Services Limited and Harvest Trustees Limited. Harvest Financial Services is one of Ireland's largest privately-owned wealth management firms. The transaction is subject to regulatory approval and is expected to close during the first half of 2021.

BUSINESS UNITS – EUROPE

UNITED KINGDOM

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾	\$ 1,361	\$ 677	\$ 957	\$ 4,191	\$ 5,144
Sales ⁽¹⁾	1,469	672	1,027	4,302	5,229
Fee and other income	43	42	63	168	225
Base earnings ⁽¹⁾	\$ 96	\$ 78	\$ 233	\$ 334	\$ 503
Items excluded from base earnings ⁽²⁾					
Actuarial assumption changes and other management actions ⁽²⁾	80	(27)	(9)	114	150
Market-related impacts on liabilities ⁽²⁾	(20)	16	(18)	(25)	(87)
Net earnings	\$ 156	\$ 67	\$ 206	\$ 423	\$ 566

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

Premiums and deposits

Premiums and deposits for the fourth quarter of 2020 increased by \$0.4 billion to \$1.4 billion compared to the same quarter last year, primarily due to higher bulk and individual annuity sales, partially offset by lower wealth management sales.

For the twelve months ended December 31, 2020, premiums and deposits decreased by \$1.0 billion to \$4.2 billion compared to the same period last year, primarily due to lower wealth management and individual annuity sales, partially offset by higher bulk annuity sales and the impact of currency movement.

Premiums and deposits for the fourth quarter of 2020 increased by \$0.7 billion compared to the previous quarter, primarily due to higher bulk and individual annuity sales.

Sales

Sales for the fourth quarter of 2020 increased by \$0.4 billion to \$1.5 billion compared to the same quarter last year, primarily due to the same reasons discussed for premiums and deposits for the same period.

For the twelve months ended December 31, 2020, sales decreased by \$0.9 billion to \$4.3 billion compared to the same period last year, primarily due to lower wealth management and individual annuity sales, partially offset by higher bulk annuity sales and the impact of currency movement.

Sales for the fourth quarter of 2020 increased by \$0.8 billion compared to the previous quarter, primarily due to higher bulk and individual annuity sales.

Fee and other income

Fee and other income for the fourth quarter of 2020 decreased by \$20 million to \$43 million compared to the same quarter last year, primarily due to lower management fees as a result of the unit-linked policies sold to Scottish Friendly in the fourth quarter of 2019.

For the twelve months ended December 31, 2020, fee and other income decreased by \$57 million to \$168 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for fourth quarter of 2020 of \$43 million was comparable to the previous quarter.

Base earnings

Base earnings for the fourth quarter of 2020 decreased by \$137 million to \$96 million compared to the same quarter last year. The decrease was primarily due to the positive impact of the resolution of an outstanding issue with a foreign tax authority in the fourth quarter of 2019 as well as unfavourable group mortality experience. These items were partially offset by higher impact of new business and favourable group morbidity and longevity experience.

Base earnings for the twelve months ended December 31, 2020 decreased by \$169 million to \$334 million compared to the same period last year. The decrease was primarily due to lower impact of new business, unfavourable group mortality experience and lower contributions from investment experience, partially offset by favourable group morbidity and longevity experience. In addition, the twelve months ended December 31, 2019 included the positive impact of the resolution of an outstanding issue with a foreign tax authority.

Base earnings for the fourth quarter of 2020 increased by \$18 million compared to the previous quarter, primarily due to higher impact of new business and favourable investment experience, partially offset by unfavourable mortality experience.

Net earnings

Net earnings for the fourth quarter of 2020 decreased by \$50 million to \$156 million compared to the same quarter last year. The decrease was primarily due to the same reasons discussed for base earnings for the same period, partially offset by higher contributions from insurance contract liability basis changes.

Net earnings for the twelve months ended December 31, 2020 decreased by \$143 million to \$423 million compared to the same period last year. The decrease was primarily due to lower contributions from insurance contract liability basis changes as well as the same reasons discussed for base earnings for the same period, partially offset by lower unfavourable market-related impacts related to changes to certain tax estimates driven by equity market declines in 2020.

Net earnings for the fourth quarter of 2020 increased by \$89 million compared to the previous quarter, primarily due to higher contributions from insurance contract liability basis changes and the same reasons discussed for base earnings for the same period. These items were partially offset by the unfavourable market-related impacts relating to changes to certain tax estimates driven by equity market recovery in the fourth quarter of 2020 and a positive contribution from property valuations in the third quarter not repeated in fourth quarter of 2020. Included in the third quarter of 2020 was a positive impact from property valuations.

OUTLOOK – UNITED KINGDOM

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The short-term outlook for the retail payout annuities market is negative due to the COVID-19 pandemic. Over the medium to long-term, management expects the market will continue to show modest growth. Individuals continue to have flexibility in accessing their savings in retirement. As expected, some individuals have chosen to remain invested in the market while drawing a pension income rather than buying a payout annuity. However, the Company expects that the attractiveness of guaranteed income from annuities will remain a key part of customers' retirement planning in the future and the Company sees the opportunity to

grow its payout annuity business in line with the expected growth in the overall retirement market.

The overall size of the retirement market continues to grow as more employers transition from defined benefit to defined contribution pension plans, with significant growth expected in equity release, pension consolidation and income drawdown. The Company will continue to develop products for individuals who require additional pension flexibility and will further develop its presence in the bulk annuity market where trustees of defined benefit schemes want to remove longevity risk by insuring its pension liabilities near to or already in payment.

Canada Life continues to be a key player in the single premium investment bond marketplace. It will continue to develop its presence in both the international and onshore market segments. The Company's distribution strategy for onshore will remain focused on financial advisors. In the international wealth management segment, the outlook is cautiously optimistic with an expectation that the market will recover from COVID-19 and continue to grow. The majority of the Company's business growth is expected to be through discretionary fund management wealth advisors, the retail market and through tax and estate planning products.

2020 has seen increased mortality claims from COVID-19, which have broadly been balanced by increased annuitant mortality experience and that is expected to continue in 2021. The Company expects a reduction in the existing group customer base in 2021 with a contraction of employment arising from COVID-19 impact on the U.K. economy. This is expected to return to moderate growth in 2021 now that employers have implemented the changes required by the Auto Enrollment legislation. The Company's group operations will continue to maintain pricing discipline, reflecting the current low interest rate environment and the outlook for the group risk operation remains positive.

The Company's bulk annuity capability has been enhanced by an outsourcing agreement in 2020, which will allow the administration of deferred annuities in the future. The increased capability in the expanding equity release mortgage market allows improved annuity market competitiveness as well as providing an enhanced product offering to customers.

IRELAND

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ^{(1) (2)}	\$ 6,161	\$ 5,136	\$ 6,602	\$ 27,168	\$ 29,011
Sales ^{(1) (2)}	5,270	4,561	5,393	24,312	26,378
Fee and other income	189	189	229	752	927
Base earnings ⁽¹⁾	\$ 62	\$ 70	\$ 52	\$ 212	\$ 166
Items excluded from base earnings ⁽³⁾					
Actuarial assumption changes and other management actions ⁽³⁾	(6)	31	27	52	114
Market-related impacts on liabilities ⁽³⁾	(2)	1	9	(23)	(1)
Net gain on IPSI sale ⁽³⁾	–	94	–	94	–
Net earnings	\$ 54	\$ 196	\$ 88	\$ 335	\$ 279

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) For the three and twelve months ended December 31, 2020, premiums and deposits and sales exclude \$29 million and \$0.6 billion, respectively, of assets managed for other business units within the Lifeco group of companies (\$0.1 billion and \$0.8 billion for the three and twelve months ended December 31, 2019 and \$0.1 billion for the three months ended September 30, 2020).

(3) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

Premiums and deposits

Premiums and deposits for the fourth quarter of 2020 decreased by \$0.4 billion to \$6.2 billion compared to the same quarter last year, primarily due to lower fund management and retail sales, partially offset by the renewal of health premiums and higher pension sales as well as the impact of currency movement.

For the twelve months ended December 31, 2020, premiums and deposits decreased by \$1.8 billion to \$27.2 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Premiums and deposits for the fourth quarter of 2020 increased by \$1.0 billion compared to the previous quarter, primarily due to higher fund management and the renewal of health premiums.

Sales

Sales for the fourth quarter of 2020 decreased by \$0.1 billion to \$5.3 billion compared to the same quarter last year, primarily due to lower fund management and retail sales, partially offset by higher corporate pension sales and the impact of currency movement.

For the twelve months ended December 31, 2020, sales decreased by \$2.1 billion to \$24.3 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Sales for the fourth quarter of 2020 increased by \$0.7 billion compared to the previous quarter, primarily due to higher fund management.

For the fund management businesses, net cash outflows in the fourth quarter of 2020 were \$1.5 billion compared to net cash inflows of \$1.5 billion for the same period last year and net cash outflows of \$1.4 billion for the previous quarter. Net cash outflows for the twelve months ended December 31, 2020 were \$1.1 billion compared to net cash inflows of \$10.3 billion for the same period last year.

Fee and other income

Fee and other income for the fourth quarter of 2020 decreased by \$40 million to \$189 million compared to the same quarter last year, primarily due to a new reinsurance treaty and lower management fees as a result of the sale of IPSI, partially offset by the impact of currency movement.

For the twelve months ended December 31, 2020, fee and other income decreased by \$175 million to \$752 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for fourth quarter of 2020 was comparable to the previous quarter.

Base earnings

Base earnings for the fourth quarter of 2020 increased by \$10 million to \$62 million compared to the same quarter last year. The increase was primarily due to favourable morbidity experience, partially offset by lower contributions from investment experience, less favourable mortality and expense experience and lower impact of new business.

Base earnings for the twelve months ended December 31, 2020 increased by \$46 million to \$212 million compared to the same period last year. The increase was primarily due to favourable mortality and morbidity experience, partially offset by lower impact of new business and higher expenses.

Base earnings for the fourth quarter of 2020 decreased by \$8 million compared to the previous quarter, primarily due to less favourable morbidity experience.

Net earnings

Net earnings for the fourth quarter of 2020 decreased by \$34 million to \$54 million compared to the same quarter last year, primarily due to unfavourable contributions from insurance contract liability basis changes, partially offset by the same reasons discussed for base earnings.

Net earnings for the twelve months ended December 31, 2020 increased by \$56 million to \$335 million compared to the same period last year. The increase was primarily due to the same reasons discussed for base earnings for the same period as well as the net gain on the sale of IPSI. The increase was partially offset by less favourable contributions from insurance contract liability basis changes and unfavourable market-related impacts related to unhedged market movements in the first quarter of 2020. Market impacts were primarily driven by the impact of the equity market declines and volatility and lower interest rates in the first quarter of 2020 on segregated fund guarantees.

Net earnings for the fourth quarter of 2020 decreased by \$142 million compared to the previous quarter, primarily due to the net gain on the sale of IPSI. Excluding the IPSI gain, the decrease is primarily due to unfavourable contributions from insurance contract liability basis changes and the same reasons discussed for base earnings for the same period.

OUTLOOK – IRELAND

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

Although the pandemic crisis continues to have a substantial impact, economic growth, measured by gross domestic product (GDP), is forecasted to be 3% in 2021, comparable to 2020. This reflects strong multinational Pharma and Information and Communication Technology exports, offset by significant pandemic control measures. A range of government Pandemic Unemployment Payments (PUP) were put in place in 2020, and while the unadjusted measure for unemployment was 7.2% at December 2020, the adjusted rate for those in receipt of PUP was 20.4%. While consumer confidence has been negatively impacted by the crisis, household savings levels have increased to record levels, presenting an opportunity as households turn to investments as a way to maximize returns in the low interest rate environment, possibly influenced by strong returns in equity markets.

Irish Life's vision to be "Ireland's home of Health and Wealth" continues to drive mergers and acquisitions, innovation and transformation initiatives in the Irish business unit. Society's transition to mobile and virtual working was the backdrop to the Company's digital developments in 2020 which saw the successful roll out of digital workplace and virtual financial advice models. The Company is accruing benefits from being a collaborative, centrally connected, inquisitive and digitally enabled organization that embraces technology for the benefit of all its stakeholders. The Company's broadly diversified product portfolio, distribution channels and target market segments have helped it to adapt successfully to the challenges of the pandemic, and position it to benefit from any upturn in the Irish economy post-crisis.

Management's Discussion and Analysis

GERMANY

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾	\$ 374	\$ 301	\$ 366	\$ 1,262	\$ 1,196
Sales ⁽¹⁾	135	80	146	382	369
Fee and other income	119	111	109	446	411
Base earnings ⁽¹⁾	\$ 41	\$ 37	\$ 34	\$ 155	\$ 136
Items excluded from base earnings ⁽²⁾					
Actuarial assumption changes and other management actions ⁽²⁾	4	18	1	22	19
Market-related impacts on liabilities ⁽²⁾	2	1	–	(9)	5
Net earnings	\$ 47	\$ 56	\$ 35	\$ 168	\$ 160

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

Premiums and deposits

Premiums and deposits for the fourth quarter of 2020 increased by \$8 million to \$374 million compared to the same quarter last year, primarily due to the impact of currency movement, partially offset by lower pension sales.

For the twelve months ended December 31, 2020, premiums and deposits increased by \$66 million to \$1,262 million compared to the same period last year, primarily due to higher segregated fund premiums and the impact of currency movement.

Premiums and deposits for the fourth quarter of 2020 increased by \$73 million compared to the previous quarter, primarily due to higher pension sales.

Sales

Sales for the fourth quarter of 2020 decreased by \$11 million to \$135 million compared to the same quarter last year, primarily due to lower pension sales, partially offset by the impact of currency movement.

For the twelve months ended December 31, 2020, sales increased by \$13 million to \$382 million compared to the same period last year, primarily due to the impact of currency movement.

Sales for the fourth quarter of 2020 increased by \$55 million compared to the previous quarter, primarily due to higher pension sales.

Fee and other income

Fee and other income for the fourth quarter of 2020 increased by \$10 million to \$119 million compared to the same quarter last year, primarily due to higher management fees on segregated fund assets and the impact of currency movement.

For the twelve months ended December 31, 2020, fee and other income increased by \$35 million to \$446 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for fourth quarter of 2020 increased by \$8 million compared to the previous quarter, primarily due to higher management fees on segregated fund assets.

Base earnings

Base earnings for the fourth quarter of 2020 increased by \$7 million to \$41 million compared to the same quarter last year and increased by \$4 million compared to the previous quarter, primarily due to higher impact of new business and lower expenses.

Base earnings for the twelve months ended December 31, 2020 increased by \$19 million to \$155 million compared to the same period last year, primarily due to the impact of changes to certain tax estimates and higher impact of new business.

Net earnings

Net earnings for the fourth quarter of 2020 increased by \$12 million to \$47 million compared to the same quarter last year. The increase was primarily due to favourable contributions from insurance contract liability basis changes and the same reasons discussed for base earnings for the same period.

Net earnings for the twelve months ended December 31, 2020 increased by \$8 million to \$168 million compared to the same period last year. The increase was primarily due to the same reasons discussed for base earnings for the same period, partially offset by the unfavourable equity market impacts related to variable annuity guarantees and related hedge ineffectiveness.

Net earnings for the fourth quarter of 2020 decreased by \$9 million compared to the previous quarter, primarily due to lower contributions from insurance contract liability basis changes, partially offset by the same reasons discussed for base earnings for the same period.

OUTLOOK – GERMANY

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The outlook for the German business continues to be positive and the Company expects continued growth in assets under management and its share of the market during 2021. The Company is positioning itself to further strengthen its presence through continued investments in product development, distribution technology and service improvements.

Management's Discussion and Analysis

EUROPE CORPORATE

The Europe Corporate account includes financing charges and the impact of certain non-continuing items as well as the results for the legacy international businesses.

In the fourth quarter of 2020, Europe Corporate had a net loss of \$4 million compared to net earnings of \$6 million for the same period last year. The fourth quarter of 2019 results included a net gain on the Scottish Friendly transaction of \$8 million. Excluding this item, the net loss increased by \$2 million, primarily due to lower expenses.

CAPITAL AND RISK SOLUTIONS

The Capital and Risk Solutions segment of Lifeco includes the operating results of the Reinsurance business unit which operates primarily in the U.S., Barbados, Bermuda and Ireland, together with an allocation of a portion of Lifeco's corporate results. Capital and Risk Solutions Corporate consists of items not associated directly with or allocated to the Reinsurance business unit as well as the results for the legacy international businesses.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Impact of currency movement is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

BUSINESS PROFILE

REINSURANCE

Reinsurance provides capital and risk solutions and operates primarily in the U.S., Barbados, Bermuda and Ireland. In the U.S., the reinsurance business operates through a branch of Canada Life, subsidiaries of Canada Life and a subsidiary of GWL&A. In Barbados, the reinsurance business operates primarily through a branch of Canada Life and subsidiaries of Canada Life. In Bermuda and Ireland, the reinsurance business operates through a subsidiary of Canada Life. In the third quarter of 2020, Capital and Risk Solutions established a subsidiary in Bermuda. The subsidiary, Canada Life International Reinsurance Corporation Limited, has been approved as a Certified Reinsurer by the Michigan Department of Insurance and Financial Services.

The Company's business includes both reinsurance and retrocession business transacted directly with clients or through reinsurance brokers. As a retrocessionaire, the Company provides reinsurance to other reinsurers to enable those companies to manage their insurance risk.

The product portfolio offered by the Company includes life, annuity/longevity, mortgage, surety and property catastrophe reinsurance, provided on both a proportional and non-proportional basis.

For the twelve months ended December 31, 2020, Europe Corporate had a net loss of \$13 million compared to \$1 million for the same period last year, primarily due to the same reasons discussed for the in-quarter results.

For the three months ended December 31, 2020, Europe Corporate had a net loss of \$4 million compared to a net loss of \$3 million for the previous quarter, primarily due to higher expenses.

In addition to providing reinsurance products to third parties, the Company also utilizes internal reinsurance transactions between companies in the Lifeco group. These transactions are undertaken to better manage insurance risks relating to retention, volatility and concentration; and to facilitate capital management for the Company, its subsidiaries and branch operations. These internal reinsurance transactions produce benefits that are reflected in one or more of the Company's other business units.

MARKET OVERVIEW

PRODUCTS AND SERVICES

REINSURANCE
MARKET POSITION • Among the top two life reinsurers in the U.S. for assumed structured life reinsurance ⁽¹⁾ • Leading provider in the evolving European structured life reinsurance market • Ranked 6th for traditional mortality reinsurance in the U.S. • Leading provider of U.K. and other European annuity/longevity reinsurance • Long-standing provider of a range of property and casualty catastrophe retrocession coverages
PRODUCTS AND SERVICES Life • Yearly renewable term • Co-insurance • Modified co-insurance • Capital management solutions Mortgage and Surety Reinsurance • Stop loss Annuity / Longevity • Longevity protection • Payout annuity • Fixed annuity Property & Casualty • Catastrophe retrocession • Capital management solutions
DISTRIBUTION • Independent reinsurance brokers • Direct placements

(1) As at November 30, 2019 (biennial survey)

COMPETITIVE CONDITIONS

REINSURANCE

In the U.S. life reinsurance market, insurers continue to view reinsurance as an important tool for risk and capital management. Several competitors are now focusing on growing their market share, which resulted in increased competition. However, a biennial independent industry survey released in November 2019 confirmed that the Company remains one of the top two providers of risk and capital management solutions in the U.S. market.

The Company's financial strength and ability to offer risk and capital solutions and traditional mortality reinsurance continues to be a competitive advantage.

In Europe, Solvency II dominates the regulatory landscape and interest in capital management transactions that produce capital benefits continues to grow. Demand for longevity reinsurance remains strong in the U.K., the Netherlands and some other continental European countries. As a result, there are now more reinsurers participating in this market.

Selected consolidated financial information – Capital and Risk Solutions

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾	\$ 5,336	\$ 4,490	\$ 4,462	\$ 19,407	\$ 17,466
Fee and other income	3	3	2	11	9
Base earnings ⁽¹⁾	\$ 124	\$ 156	\$ 157	\$ 536	\$ 401
Items excluded from base earnings ⁽²⁾					
Actuarial assumption changes and other management actions ⁽²⁾	43	2	(40)	78	(15)
Market-related impact on liabilities ⁽²⁾	–	9	–	–	–
Net earnings – common shareholders	\$ 167	\$ 167	\$ 117	\$ 614	\$ 386
Total assets	\$ 14,861	\$ 14,815	\$ 15,130		
Proprietary mutual funds and institutional assets ⁽¹⁾	–	–	–		
Total assets under management ⁽¹⁾	14,861	14,815	15,130		
Other assets under administration ⁽¹⁾	–	–	–		
Total assets under administration ⁽¹⁾	\$ 14,861	\$ 14,815	\$ 15,130		

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

Base earnings ⁽¹⁾ and Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Reinsurance	\$ 124	\$ 157	\$ 162	\$ 539	\$ 405
Capital and Risk Solutions Corporate	–	(1)	(5)	(3)	(4)
Base earnings ⁽¹⁾	\$ 124	\$ 156	\$ 157	\$ 536	\$ 401
Reinsurance	171	168	128	621	397
Capital and Risk Solutions Corporate	(4)	(1)	(11)	(7)	(11)
Net earnings – common shareholders	\$ 167	\$ 167	\$ 117	\$ 614	\$ 386

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

2020 DEVELOPMENTS

- **COVID-19 Pandemic Impacts** – The Capital and Risk Solutions segment continues to have a strong new business pipeline and has not seen a material impact as a result of the COVID-19 pandemic in 2020. Capital and Risk Solutions will continue to focus on meeting market demand for life reinsurance involving capital solutions in the U.S. and Europe.
- The Company offers property catastrophe coverage to reinsurance companies. Current preliminary estimates of industry losses arising from catastrophe events in 2020 do not reach the level where any claims would be anticipated. As any precautionary claim notifications are unlikely to be received for some period of time, the Company will continue to monitor events and will update any estimates as required.
- On May 20, 2020, the Company announced it had entered into a long-term longevity reinsurance agreement with an insurance company in the Netherlands. The agreement covers approximately €5.3 billion of pension liabilities

and close to 82,000 in-payment pensioners. In exchange for ongoing premium payments, the Company will pay the actual benefit obligations incurred by the insurance company.

- On July 7, 2020, the Company announced it had entered into a long-term longevity reinsurance agreement with an insurance company in the U.K. The agreement covers approximately £1.4 billion of pension liabilities and approximately 2,700 in-payment pensioners. In exchange for ongoing premium payments, the Company will pay the actual benefit obligations incurred by the insurance company.
- On December 15, 2020, the Company announced it had entered into a long-term longevity reinsurance agreement with an insurance company in the U.K. The agreement covers approximately £3 billion of pension liabilities and approximately 7,500 in-payment pensioners. In exchange for ongoing premium payments, Canada Life will pay the actual benefit obligations incurred by the insurance company.

BUSINESS UNITS – CAPITAL AND RISK SOLUTIONS

REINSURANCE

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Premiums and deposits ⁽¹⁾	\$ 5,330	\$ 4,484	\$ 4,455	\$ 19,385	\$ 17,443
Fee and other income	3	3	2	11	9
Base earnings ⁽¹⁾	\$ 124	\$ 157	\$ 162	\$ 539	\$ 405
Items excluded from base earnings ⁽²⁾					
Actuarial assumption changes and other management actions ⁽²⁾	47	2	(34)	82	(8)
Market-related impact on liabilities ⁽²⁾	–	9	–	–	–
Net earnings	\$ 171	\$ 168	\$ 128	\$ 621	\$ 397

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) Items excluded from base earnings, a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional information.

Premiums and deposits

Reinsurance premiums can vary significantly from period to period depending on the terms of underlying treaties. For certain life reinsurance transactions, premiums will vary based on the form of the transaction. Treaties where insurance contract liabilities are assumed on a proportionate basis will typically have significantly higher premiums than treaties where claims are not incurred by the reinsurer until a threshold is exceeded. Earnings are not directly correlated to premiums received.

Premiums and deposits for the fourth quarter of 2020 of \$5.3 billion increased by \$0.9 billion compared to the same quarter last year, primarily due to new reinsurance agreements and volumes relating to existing business.

For the twelve months ended December 31, 2020, premiums and deposits increased by \$1.9 billion to \$19.4 billion compared to the same period last year, primarily due to new reinsurance agreements and higher volumes relating to existing business.

Premiums and deposits for the fourth quarter of 2020 increased by \$0.8 billion compared to the previous quarter, primarily due to new reinsurance agreements and higher volumes relating to existing business.

Fee and other income

Fee and other income for the fourth quarter of 2020 of \$3 million was comparable to the previous quarter and to the same quarter last year.

For the twelve months ended December 31, 2020, fee and other income of \$11 million was comparable to the same period last year.

Base earnings

Base earnings for the fourth quarter of 2020 decreased by \$38 million to \$124 million compared to the same quarter last year. The decrease primarily reflects new business strain in the fourth quarter of 2020 compared to new business gains in the fourth quarter of 2019. The results in the fourth quarter of 2020 also reflect unfavourable claims experience in the life business, partially offset by favourable longevity experience.

Base earnings for the twelve months ended December 31, 2020 increased by \$134 million to \$539 million compared to the same period last year, primarily due to favourable longevity experience and higher business volumes partially offset by new business strain and less favourable claims experience in the life business.

Base earnings for the fourth quarter of 2020 decreased by \$33 million compared to the previous quarter. The decrease was primarily due to new business strain in the fourth quarter of 2020 compared to new business gains in the previous quarter and less favourable claims experience in the life business partially offset by higher business volumes and favourable longevity experience.

Net earnings

Net earnings for the fourth quarter of 2020 increased by \$43 million to \$171 million compared to the same quarter last year. The increase was primarily due to the same reasons discussed for base earnings, as well as higher contributions from insurance contract liability basis changes.

For the twelve months ended December 31, 2020, net earnings increased by \$224 million to \$621 million compared to the same period last year, primarily due to the same reasons discussed for base earnings and higher contributions from insurance contract liability basis changes.

Net earnings for the fourth quarter of 2020 increased by \$3 million compared to the previous quarter, primarily due to higher contributions from insurance contract liability basis changes, partially offset by the base earnings impacts and a decrease in actuarial liabilities on a legacy block of business with investment performance guarantees reflecting market recoveries in the third quarter of 2020.

OUTLOOK – REINSURANCE

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The U.S. life reinsurance industry is focused on accessing certain demographics, including the low to middle income families market. If the industry is successful, this could create renewed growth, otherwise expected sales and volume will remain stable.

In Europe, low interest rates and the associated financial impact on reserve and capital positions under Solvency II is a key market dynamic. The Company's Reinsurance business unit continues to help European clients and other affiliated companies meet these capital challenges through innovative reinsurance solutions. Demand for longevity reinsurance remains strong and will remain a focus for 2021.

2020 was the fourth consecutive year of significant hurricane and typhoon events. The Company expects 2021 retrocessional pricing to continue to increase. Insurance linked securities capacity is expected to decrease due to trapped collateral from 2017 to 2020 events. However, capital raising has also been evident in the market. The Company's primary focus in the property catastrophe market for 2021, will be to continue to support the core client base with prudent attachment levels and risk adjusted premiums.

LIFECO CORPORATE OPERATING RESULTS

The Lifeco Corporate segment includes operating results for activities of Lifeco that are not associated with the major business units of the Company.

The net loss for the three months ended December 31, 2020 was \$16 million compared to a net loss of \$6 million for the same period last year and a net loss of \$12 million for the previous quarter, primarily due to higher operating expenses and lower net investment income.

CAPITAL AND RISK SOLUTIONS CORPORATE

In the fourth quarter of 2020, Capital and Risk Solutions Corporate had a net loss of \$4 million compared to a net loss of \$11 million for the same period last year, primarily due to unfavourable contributions from insurance contract liability basis associated with the legacy international business.

For the twelve months ended December 31, 2020, Capital and Risk Solutions Corporate had a net loss of \$7 million compared to a net loss of \$11 million for the same period last year, primarily due to the same reasons discussed for the in-quarter results.

For the three months ended December 31, 2020, Capital and Risk Solutions Corporate had a net loss of \$4 million compared to a net loss of \$1 million for the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

The net loss for the twelve months ended December 31, 2020 was \$34 million compared to a net loss of \$21 million for the same period last year, primarily due to higher operating expenses, partially offset by higher net investment income.

RISK MANAGEMENT

COVID-19 PANDEMIC – GOVERNMENT AND REGULATORY RESPONSES

While conditions have become more stable, governments and central banks in the jurisdictions in which the Company's subsidiaries operate have implemented and extended many of the measures introduced earlier in 2020 to deal with the economic impacts of the COVID-19 pandemic, including emergency spending, interest rate cuts, wage subsidies and other supports for individuals and businesses.

The overall level of regulatory engagement with the Company's regulated subsidiaries has moderated somewhat to reflect the more stable conditions. However, regulators continue to monitor the impact of the pandemic to ensure that regulated companies maintain sufficient capital and liquidity. Regulators in Canada, the U.K. and Ireland, where some of the Company's regulated subsidiaries operate, have maintained the guidance they provided earlier in 2020 on the payment of dividends and other shareholder distributions during the crisis.

On March 13, 2020, the Office of the Superintendent of Financial Institutions (OSFI) set expectations that Canadian banks and insurers should suspend share buybacks and not to increase dividend payments. The Company does not currently intend to increase dividends or engage in share repurchases.

In the U.K., the Prudential Regulatory Authority (PRA) wrote to all insurance companies in March and April 2020 to remind them to manage their financial resources prudently to ensure they are able to meet their commitments to policyholders and maintain safety and soundness and to satisfy themselves that any dividends are prudent, consistent with their risk appetite and informed by a range of scenarios including very severe ones. The Company's subsidiaries that are supervised by the PRA paid dividends in July, September and November 2020.

In Ireland, the position of the Central Bank of Ireland (CBI) is that, as the impact of COVID-19 remains uncertain, insurance firms should, at this time, postpone any dividend payment distribution or similar transactions until they can forecast their costs and future revenues with a greater degree of certainty. The CBI has indicated that it will continue to review its position in conjunction with ongoing guidance from the European Insurance and Occupational Pension Authority and the European Systemic Risk Board.

The declaration and payment of dividends by the Company in future periods remains at the discretion of its directors and will depend, among other things, on the Company's financial position, which will in turn depend on the duration of the COVID-19 pandemic and the severity and duration of the financial impacts. Although there can be no assurance, to the extent that the pandemic abates and the actions taken by governments lead to a sustained global financial recovery within a reasonable time, the Company expects that its ability to pay dividends at current levels will not be adversely impacted.

OVERVIEW

As a diverse financial services company, the effective management of risk is integral to the success of the Company's business. The Company is committed to a comprehensive system of risk management, which is embedded across all business activities, operated through a three lines of defense organization and

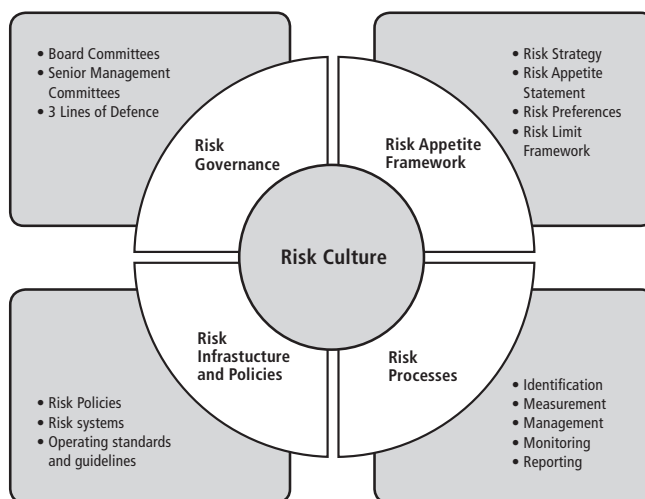
overseen by the Board of Directors. The Company's three lines of defense include business unit and support functions, oversight functions including actuarial, finance, risk and compliance, and the Company's internal audit function. The Company has a prudent and measured approach to risk management. This approach is built on a strong risk culture and is guided by an integrated Enterprise Risk Management (ERM) Framework.

The Company's ERM Framework facilitates the alignment of business strategy with risk appetite, informs and improves the deployment of capital; and supports the identification, mitigation and management of exposure to possible losses and risks. The Company's Risk Function is responsible for the Risk Appetite Framework (RAF), the supporting risk policies and risk limit structure, and provides independent risk oversight across the Company's operations.

There are three main sections to this Risk Management disclosure: ERM Framework, Risk Management and Control Practices and Exposures and Sensitivities.

ENTERPRISE RISK MANAGEMENT FRAMEWORK

The Company's Board and Management Committees provide oversight of the ERM Framework which is comprised of five components: Risk Culture, Risk Governance, RAF, Risk Processes and Risk Infrastructure & Policies.



RISK CULTURE

Risk culture is defined as the system of values and behaviours which reflect the Company's collective sense of responsibility to fulfill its promises and safeguard the Company's financial strength and reputation while growing shareholder value. This culture reflects the Company's commitment to treat customers fairly and support open communication and ethical behaviour.

This culture is instilled through a mindset of risk awareness as demonstrated by:

- Consistent tone from the Board of Directors and senior management in respect of behavioural and ethical expectations;
- Recognition that risk is inherent in the Company's business success and reflects opportunity when appropriately managed;

Management's Discussion and Analysis

- Common commitment throughout the Company to the importance of continuous management of risk, including clear accountability for and ownership of specific risks and risk areas;
- Rewarding positive risk taking and management behaviours while challenging and remediating those that are inappropriate;
- Encouragement of risk event reporting and the presence of robust whistleblowing processes, actively seeking to learn from mistakes; and
- Recognition that risk management skills and knowledge are valued, encouraged and developed, throughout the Company and supported by an appropriately resourced Risk Function.

Risk Governance

Risk governance sets out the roles and responsibilities for the Board of Directors (Board) and Board Committees.

Board of Directors

The mandate of the Board, which it discharges directly or through one of its Committees, is to supervise the management of the business and affairs of the Company. The Board is ultimately accountable and responsible for the governance and oversight of risk throughout the Company. The Board annually approves the strategic goals, objectives, plans and initiatives for Lifeco and in so doing reviews the risks associated with Lifeco's diverse business, strategic goals and high priority initiatives. Key risk responsibilities include:

- Approving the ERM Policy and RAF;
- Monitoring the implementation and maintenance by management of appropriate systems, policies, procedures and controls to manage the risks associated with the Company's businesses and operations;
- Annually approving Lifeco's business, financial and capital plans and monitoring the implementation by management thereof;
- Upon the recommendation of the Risk Committee, adopting a Code of Conduct applicable to Directors, officers and employees of the Company; and
- Periodically approving policies designed to support independence of the Internal Audit, Risk, Finance, Actuarial and Compliance oversight functions.

Risk Committee

The Risk Committee of the Board of Directors is responsible for assisting the Board with risk management oversight and governance throughout the Company. The Risk Committee's responsibilities include:

- Review and oversight of the ERM Policy and RAF;
- Review, approval and oversight of the credit, market, insurance, operational, conduct, strategic and other risk policies;
- Approval of the risk limit framework, associated risk limits and monitoring adherence to those limits;
- Approval of the organizational structure and resources of the risk management and compliance functions;
- Evaluation of the Company's risk culture;
- Discussion of the risks in aggregate and by type of risk;
- Review relevant reports including stress testing and Financial Condition Testing;
- Review and approval of the Own Risk and Solvency Assessment (ORSA) Report;

- Periodically approve the recovery plan playbook;
- Review of the risk impact of business strategies, capital plans, financial plans and new business initiatives;
- Review and assessment of the performance of the Company's Chief Risk Officer (CRO) and Chief Compliance Officer (CCO);
- Monitoring compliance with the Company's Code of Conduct;
- Periodic consideration and input regarding the relationships between risk and compensation; and
- Review and assessment of the effectiveness of risk management across the Company including processes to ensure effective identification, measurement, management, monitoring and reporting on significant current and emerging risks.

The Risk Committee is required to meet, at least annually, with the Audit Committee and with the Company's Chief Internal Auditor. Members of the Risk Committee are independent of management.

Audit Committee – The primary mandate of the Audit Committee is to review the financial statements of the Company and public disclosure documents containing financial information and to report on such review to the Board, to be satisfied that adequate procedures are in place for the review of the Company's public disclosure documents that contain financial information and to oversee the work and review the independence of the external auditor. The Audit Committee is also responsible for reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management. The Audit Committee meets as often as necessary to discharge its duties and responsibilities and meets at least annually, with the Risk Committee. Members of the Audit Committee are independent of management.

Conduct Review Committee – The primary mandate of the Conduct Review Committee is to require management to establish satisfactory procedures for the consideration and approval of material transactions with related parties and to review and, if deemed appropriate, to approve related party transactions in accordance with such procedures. Members of the Conduct Review Committee are independent of management.

Governance and Nominating Committee – The primary mandate of the Governance and Nominating Committee is to oversee the Company's approach to governance matters, to recommend to the Board effective corporate governance policies and processes, to assess the effectiveness of the Board, Board Committees and the Directors and to recommend to the Board candidates for election as Directors and candidates for appointment to Board Committees.

Human Resources Committee – The primary mandate of the Human Resources Committee is to support the Board in its oversight of compensation, talent management and succession planning. This includes the responsibility to approve compensation policies, to review the designs of major compensation programs, to approve compensation arrangements and any benefit or perquisite plan for senior executives of the Company and to recommend to the Board compensation arrangements for the Directors and for the President and Chief Executive Officer. The mandate also includes the responsibility to review succession plans for the President and Chief Executive Officer and other senior executives, to review talent management programs and initiatives and to review the leadership capabilities required to support the advancement of the Company's strategic objectives. The Human Resources Committee is also responsible for considering the implications of the risks associated with the Company's compensation policies,

Management's Discussion and Analysis

plans and practices and in doing so meets annually with the Chief Risk Officer. The Human Resources Committee also meets with the Risk Committee on an as needed basis.

Investment Committee – The primary mandate of the Investment Committee is to oversee the Company's global investment strategy and activities, including approving the Company's Investment Policy and monitoring the Company's compliance with the Investment Policy. The mandate also includes reviewing the Company's annual investment plan and monitoring emerging risks, market trends and performance, investment regulatory issues and any other matters relevant to the oversight of the Company's global investment function. The Investment Committee meets as often as necessary to discharge its duties and responsibilities and meets with the Risk Committee as appropriate.

Reinsurance Committee – The primary mandate of the Reinsurance Committee is to advise on the Corporation's reinsurance transactions. The mandate also includes reviewing and approving management's recommendations with respect to policies applicable to reinsurance.

Senior Management Risk Committees

The Executive Risk Management Committee (ERMC) is the primary senior management committee that oversees all forms of risk and the implementation of the ERM Framework. The members are the CEO, the heads of each major Business Segment, the heads of key oversight functions and heads of support functions as appropriate. The Board Risk Committee delegates authority for the approval and management of lower level risk limits to the ERMC. The Company's CRO leads the Risk Function and chairs the ERMC. Its responsibilities include reviewing compliance with the RAF, risk policies and risk standards. It also assesses the risk impact of business strategies, capital and financial plans, and material initiatives. The following three enterprise-wide sub-committees, chaired by the Risk Function, report to the ERMC to provide advice and recommendations on each of the key risk categories:

- Market and Credit Risk Committee
- Insurance Risk Committee
- Operational Risk Committee

The oversight responsibilities of the above committees include identification, measurement, management, monitoring and reporting of their respective risks. In addition, each business segment has established its own executive risk management committee providing oversight for all forms of risk and the implementation of the ERM Framework.

Accountabilities

The Company has adopted a Three Lines of Defense model to clearly segregate risk management and risk oversight responsibilities and applies the ERM Framework rigorously across the enterprise:

- **First Line:** Business units and business support functions, including Investment Management, Human Resources, Information Services and Legal, are the ultimate owners of the risk and have primary risk management as well as risk-taking responsibility and accountability through day-to-day operations within ongoing business process;

- **Second Line:** The Risk Function has the primary and overall responsibility and accountability for independent oversight of risk-taking and risk management of the first line of defense. In this role, the Risk Function receives support from other oversight functions including Actuarial, Compliance and Finance; and
- **Third Line:** Internal Audit is responsible for independent assurance of the adequacy of the design and operational effectiveness of the Company's ERM Framework.

The Company's CRO reports directly, both to the President and Chief Executive Officer and to the Board Risk Committee. The CRO is responsible for ensuring that the Risk Function is appropriately resourced and effective in executing its responsibilities. The accountabilities of the CRO include reporting on compliance with the ERM Policy and RAF as well as for escalating matters that require attention.

Business Segment ERMCS monitor all risk categories for businesses and operations within their respective business segments. Risk resources and capabilities are aligned with the Company's business segments and operating units and further support is provided by centrally based risk areas of expertise.

Although the Company takes steps to anticipate and minimize risks in general, no risk management framework can guarantee that all risks will be identified, appreciated or mitigated effectively. Unforeseen future events may have a negative impact on the Company's business, financial condition and results of operations.

Risk Appetite Framework

The Company has an articulated Risk Appetite Framework (RAF) that includes the following elements along with the associated governance structure:

- **Risk Strategy:** Risk philosophy of the Company that links to the business strategy
- **Risk Appetite Statement:** Qualitative reflection of the aggregate level of risk and types of risk that the Company is willing to accept to achieve its business objective
- **Risk Preference:** Qualitative description of risk tolerances
- **Risk Limit Framework:** Quantitative components of the RAF including excess and escalation process

Risk Strategy

The Company's business strategy is aligned with its risk strategy and risk appetite. The risk strategy supports the Company's main objectives to keep its commitments while growing shareholder value. The risk strategy requires:

- diversification of products and services, customers, distribution channels and geographies;
- a prudent and measured approach to risk-taking;
- resilience of business operations and sustainable growth, taking into consideration corporate social responsibility;
- conducting business to safeguard the Company's reputation and deliver fair customer outcomes through maintaining high standards of integrity based on the Code of Conduct and sound sales and marketing practices; and
- generating returns to grow shareholder value through profitable and growing operations while maintaining a strong balance sheet.

Risk Appetite Statement

The Company's Risk Appetite Statement has four key components:

- **Strong Capital Position:** The Company intends to maintain a strong balance sheet and not take risks that would jeopardize its financial strength;
- **Mitigated Earnings Volatility:** The Company seeks to avoid substantial earnings volatility through appropriate diversification and limiting exposure to more volatile lines of business;
- **Strong Liquidity:** The Company intends to maintain a high quality, diversified investment portfolio with sufficient liquidity to meet the demands of policyholder and financing obligations under normal and stressed conditions; and
- **Treating Customers Fairly and Maintaining the Company's Reputation:** The Company seeks to maintain a high standing and positive reputation with its customers, counterparties, creditors and other stakeholders. This includes building and maintaining trust, fair treatment of the customers, consideration of corporate social responsibility, and effective management of sustainability and reputational risk.

Risk Preference

The Company has established qualitative risk preferences for each risk type. Each risk is assigned a risk preference level, in the context of understanding and managing these risks. The current level of exposure is regularly measured and risk tolerances are expressed quantitatively through actual constraints to the Company's risk profile within pre-agreed limits. Maximum guidelines are established to monitor risk concentration and inform the risk limit setting process.

Risk Limit Framework

A comprehensive structure of risk limits and controls is in place across the Company. Enterprise risk limits are further broken down by business unit and risk type. The limit structure is accompanied by comprehensive limit approval and excess management processes to ensure effective governance and oversight of the RAF. The Company and its subsidiaries are subject to various regulatory regimes. The capital requirements under these regulatory capital regimes are reflected in the development of risk limits. Business units are responsible for operating within the risk appetite and the risk limit framework and satisfying local needs as required.

RISK PROCESSES

Risk processes follow a cycle of identification, measurement, management, monitoring and reporting and are designed to ensure both current and emerging risks are assessed against the RAF.

Risk Identification, Measurement and Management

Risk identification requires the structured analysis of the current and emerging risks facing the Company, so that they are understood and appropriately controlled. Processes are designed to ensure risks are considered, assessed, prioritized and addressed in all business initiatives and changes, including investment strategies, product design, significant transactions, annual planning and budgeting as well as potential business acquisitions and disposals.

Risk measurement provides the means to quantify and assess the Company's risk profile and monitor the profile against the risk limits. Any material new business development or change in strategy warrants an independent assessment of risk and potential

impact on reputation, in addition to measurement of the impact on capital, earnings and liquidity. Stress and scenario testing is used to evaluate risk exposures against the risk appetite. Sensitivity testing of key risks is used to evaluate the impact of risk exposures independent of other risks. Scenario testing is used to evaluate the combined impact of multiple risk exposures.

The Company has processes in place to identify risk exposures on an ongoing basis and, where appropriate, develops mitigation strategies to proactively manage these risks. Effective risk management requires the selection and implementation of approaches to accept, reject, transfer, avoid or control risk, including mitigation plans. It is based on a control framework for financial and non-financial risks that includes risk limits, Risk Function Indicators (RFIs) and stress and scenario testing to ensure appropriate escalation and resolution of potential issues in a timely manner.

A key responsibility of the Risk Function is to ensure that the risk appetite is applied consistently across the Company and that limits are established to ensure that risk exposures comply with the risk appetite and Company-wide risk policies.

Risk Monitoring, Reporting and Escalation

Risk monitoring relates to ongoing oversight and tracking of the Company's risk exposures, ensuring that the risk management approaches in place remain effective. Monitoring may also identify risk-taking opportunities.

Risk reporting presents an accurate and timely picture of existing and emerging risk issues and exposures as well as their potential impact on business activities. Reporting highlights the risk profile relative to the risk appetite and associated risk limits.

A clearly defined escalation protocol is in place to address any excesses against thresholds or limits established by the RAF, risk policies, operating standards and guidelines. Remediation plans are reviewed by the Risk Function and escalated to designated management and Board committees.

RISK INFRASTRUCTURE AND POLICIES

The Company's organization and infrastructure is established to provide resources and risk systems to support adequate and appropriate risk policies, operating standards and guidelines and processes. The Company endeavours to take a consistent approach to risk management across key risk types.

The Company has codified its procedures and operations related to risk management and oversight requirements in a set of guiding documents composed of risk policies, operating standards and associated guidelines. This comprehensive documentation framework provides detailed and effective guidance across all risk management processes. These documents enable a consistent approach to risk management and oversight across the Company's businesses and are reviewed and approved regularly, in accordance with an established authority hierarchy, by the Board of Directors, the Board Risk Committee or a senior management committee. Similar policy structures have been developed and are maintained by each business segment.

RISK MANAGEMENT AND CONTROL PRACTICES

The Company's risk profile is impacted by a variety of risks and its risk management and independent oversight processes are tailored to the type, volatility and magnitude of each risk. The Company has defined specific risk management and oversight processes for risks, broadly grouped in the following categories:

1. Market and Liquidity Risk
2. Credit Risk
3. Insurance Risk
4. Operational Risk
5. Conduct Risk
6. Strategic Risk

COVID-19 PANDEMIC

The global pandemic is elevating disruption themes, amplifying existing financial and nonfinancial risks, introducing new uncertainties, and highlighting interdependencies and accentuating risk correlations.

Many factors still remain unknown, such as the depth and length of the recession, rollout and efficacy of vaccines, ongoing effectiveness of monetary and fiscal stimulus, and impacts from the cross-accumulation of risks. Near and longer term implications of COVID-19 pandemic raise several unique challenges that may affect Lifeco's business strategy.

The Company is monitoring the situation closely, including carrying out stress and scenario testing, and has implemented processes for the continuation of operations and to support the well-being of customers, employees and broader communities. The risks associated with the COVID-19 pandemic (financial, operational, regulatory and other risks) are being managed within the Company's existing risk management framework.

MARKET AND LIQUIDITY RISK

RISK DESCRIPTION

Market risk is the risk of loss resulting from potential changes in market rates, prices or liquidity in various markets such as for interest rates, real estate, currency, common shares and commodities. Exposure to this risk results from business activities including investment transactions which create on-balance sheet and off-balance sheet positions.

Liquidity risk is the risk of the Company's inability to generate the necessary funds to meet its obligations as they come due, including off-balance sheet commitments and obligations.

MARKET AND LIQUIDITY RISK MANAGEMENT

The Company's Market Risk Policy sets out the market risk management framework and provides the principles for market risk management. This policy is supported by other policies and guidelines that provide detailed guidance.

A governance structure has been implemented for the management of market risk. The business units, including Investment Management, are the ultimate owners of market risk and as such have primary responsibility for the identification, measurement, management, monitoring and reporting of market risk. The Company has established a senior management committee to provide oversight of market risk, which includes completing reviews and making recommendations regarding risk limits, the

risk policy and associated compliance, excess management and mitigation pertaining to market risk. Each business segment has established oversight committees and operating committees to help manage market risk within the segment. The Company has developed risk limits, RFIs and measures to support the management of market and liquidity risk in compliance with the Company's RAF. The Risk Function works with the business units and other oversight functions to identify current and emerging market risks and take appropriate action, if required.

The Company is willing to accept market risk and liquidity risk in certain circumstances as a consequence of its business model and seeks to mitigate the risk wherever practical. To reduce market risk, the Company uses a dynamic hedging program associated with segregated fund and variable annuity guarantees. This is supplemented by a general macro equity hedging program that has been established to execute hedge transactions in circumstances and at levels that have been determined by the Company.

Risks and risk management activities associated with the broad market and liquidity risk categories are detailed below.

Interest Rate Risk

Interest rate risk is the risk of loss resulting from the effect of the volatility and uncertainty of future interest rates on asset cash flows relative to liability cash flows and on assets backing surplus. This also includes changes in the amount and timing of cash flows related to asset and liability optionality, including interest rate guarantees and book value surrender benefits in the liabilities.

The Company's principal exposure to interest rate risk arises from certain general fund and segregated fund products. The Company's Asset Liability Management (ALM) strategy has been designed to mitigate interest rate risks associated with general fund products, with close matching of asset cash flows and insurance and investment contract obligations. Products with similar risk characteristics are grouped together to ensure an effective aggregation and management of the Company's ALM positions. Asset portfolios supporting insurance and investment contract liabilities are segmented to align with the duration and other characteristics (e.g. liquidity) of the associated liabilities.

A prolonged period of low interest rates may adversely impact the Company's earnings and regulatory capital and could impact the Company's business strategy. During periods of prolonged low interest rates, investment earnings may be lower because the interest earned on new fixed income investments will likely have declined with the market interest rates, and hedging costs may increase. Also, early repayment on investments held such as mortgage-backed securities, asset-backed securities, and callable bonds, may be experienced and proceeds forced to be reinvested at lower yields, which will reduce investment margins.

Crediting rates within general fund products are set prudently and a significant proportion of the Company's portfolio of crediting rate products includes pass-through features, which allow for the risk and returns to be shared with policyholders. Asset management and related products permit redemptions; however, the Company attempts to mitigate this risk by establishing long-term customer relationships, built on a strategic customer focus and an emphasis on delivering strong fund performance.

The Company has established dynamic hedging programs to hedge interest rate risk sensitivity associated with segregated

Management's Discussion and Analysis

fund and variable annuity guarantees. These hedging programs are designed to offset changes in the economic value of liabilities using derivative instruments. The Company's approach to dynamic hedging of interest rate risk principally involves transacting in interest rate swaps. The hedge asset portfolios are dynamically rebalanced within approved thresholds and rebalancing criteria.

Where the Company's insurance and investment products have benefit or expense payments that are dependent on inflation (e.g. inflation-indexed annuities, pensions and disability claims), the Company generally invests in real return instruments to mitigate changes in the real dollar liability cash flows. Some protection against changes in the inflation index can be 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.

Equity Risk

Equity risk is the risk of loss resulting from the sensitivity of the value of assets, liabilities, financial instruments and fee revenue to changes in the level or in the volatility of market prices of common shares and real estate. This includes the equity risk associated with the Company's general fund assets and investments on account of segregated fund policyholders.

The Company's principal exposure to equity risk arises from segregated funds and fee income associated with the Company's assets under management. Approved investment and risk policies also provide for general fund investments in equity markets within defined limits.

The Company has established dynamic hedging programs to hedge equity risk sensitivity associated with segregated fund and variable annuity guarantees. The hedging programs are designed to mitigate exposure to changes in the economic value of these liabilities using derivative instruments. The Company's approach to dynamic hedging of equity risk principally involves the short selling of equity index futures. The hedge asset portfolios are dynamically rebalanced within approved thresholds and rebalancing criteria. The Company's product-level hedging programs are supplemented by a general macro hedging strategy that has been established to execute hedge transactions in circumstances and at levels that have been determined by the Company.

For certain very long-dated liabilities it is not practical or efficient to closely match liability cash flows with fixed-income investments. Therefore, certain long-dated asset portfolios target an investment return sufficient to meet liability cash flows over the longer term. These liabilities are partially backed by a diversified portfolio of non-fixed income investments, including equity and real estate investments, in addition to long dated fixed-income instruments. Real estate losses can arise from fluctuations in the value of or future cash flows from the Company's investments in real estate.

The Company has established a macro equity hedging program to execute hedge transactions in circumstances and at levels that have been determined by the Company. The objective of the program is to reduce the Company's exposure to equity tail-risk and to maintain overall capital sensitivity to equity market movements within Board approved risk appetite limits. The program is designed to hedge a portion of the Company's capital sensitivity due to movements in equity markets arising from sources outside of dynamically hedged segregated fund and variable annuity exposures.

Foreign Exchange Risk

Foreign exchange risk is the risk of loss resulting from changes in currency exchange rates against the reporting currency. The Company's foreign exchange investment and risk management policies and practices are to match the currency of the Company's general fund investments with the currency of the underlying insurance and investment contract liabilities. To enhance portfolio diversification and improve asset liability matching, the Company may use foreign exchange derivatives to mitigate currency exchange risk to the extent this is practical using forward contracts and swaps.

The Company has net investments in foreign operations. As a result, the Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations due to the movement of the Canadian dollar against these currencies. Such fluctuations affect the Company's financial results. The Company has exposures to the U.S. dollar resulting from the operations of Great-West Financial and Putnam in the United States segment and the Reinsurance business unit within the Capital and Risk Solutions segment; and to the British pound and the euro resulting from operations of business units within the Capital and Risk Solutions and Europe segments operating in the U.K., the Isle of Man, Ireland and Germany.

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 (loss). Strengthening or weakening of the Canadian dollar end-of-period market rate compared to the U.S. dollar, British pound and euro end-of-period market rates impacts the Company's total share capital and surplus. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted.

- A 5% appreciation (depreciation) of the average exchange rate of the Canadian dollar to each of the British pound, euro and U.S. dollar would increase (decrease) net earnings in 2020 by \$43 million, \$34 million and \$26 million, respectively.
- A 5% appreciation (depreciation) of the Canadian dollar end-of-period market rate compared to each of the U.S. dollar, British pound and euro end-of-period market rates would decrease (increase) the unrealized foreign currency translation gains, including the impact of instruments designated as hedges of net investments on foreign operations, in accumulated other comprehensive income (loss) of shareholders' equity by approximately \$347 million, \$306 million and \$170 million, respectively, as at December 31, 2020.

Management may use forward foreign currency contracts and foreign denominated debt to mitigate the volatility arising from the movement of rates as they impact the translation of net investments in foreign operations. The Company uses non-IFRS financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation on financial results.

Management's Discussion and Analysis

Liquidity Risk

The Company's liquidity risk management framework and associated limits are designed to ensure that the Company can meet cash and collateral commitments as they fall due, both on an expected basis and under a severe liquidity stress.

In the normal course of certain reinsurance business, the Company provides letters of credit (LCs) to other parties, or beneficiaries. A beneficiary will typically hold a LC as collateral to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from the Company.

The Company may be required to seek collateral alternatives if it is unable to renew existing LCs at maturity. The Company monitors its use of LCs on a regular basis and assesses the ongoing availability of these and alternative forms of operating credit. The Company has contractual rights to reduce the amount of LCs issued to the LC beneficiaries for certain reinsurance treaties. The Company staggers the maturities of LCs to reduce the renewal risk.

Liquidity

	December 31	
	2020	2019
Cash, cash equivalents and short-term bonds	\$ 11,197	\$ 8,852
Other liquid assets and marketable securities		
Government bonds	33,635	30,865
Corporate bonds	52,583	41,792
Common/Preferred shares (public)	10,208	9,766
Residential mortgages – insured	3,785	4,141
	\$100,211	\$ 86,564
Total	\$111,408	\$ 95,416

Cashable liability characteristics

	December 31	
	2020	2019
Surrenderable insurance and investment contract liabilities⁽¹⁾		
At market value	\$ 50,855	\$ 21,606
At book value	49,981	44,829
Total	\$100,836	\$ 66,435

(1) Cashable liabilities include insurance and investment contract liabilities classified as held for sale.

The carrying value of the Company's liquid assets and marketable securities is approximately \$111.4 billion or 1.1 times the Company's surrenderable insurance and investment contract liabilities. The Company believes that it holds adequate and appropriate liquid assets to meet anticipated cash flow requirements as well as to meet cash flow needs under a severe liquidity stress. Surrenderable insurance and investment contract liabilities at December 31, 2020 increased \$34.4 billion compared to December 31, 2019 primarily due to the acquisition of the retirement services business of MassMutual.

Approximately 48% (approximately 57% in 2019) of insurance and investment contract liabilities are non-cashable prior to maturity or claim, with a further 26% (approximately 14% in 2019) of insurance and investment contract liabilities subject to fair value adjustments under certain conditions.

The majority of liquid assets and other marketable securities comprise fixed-income securities whose value decrease when interest rates rise. Also, a high interest rate environment may encourage holders of certain types of policies to terminate their policies, thereby placing demands on the Company's liquidity position.

For a further description of the Company's financial instrument risk management policies, refer to note 8 in the Company's December 31, 2020 annual consolidated financial statements.

CREDIT RISK

RISK DESCRIPTION

Credit risk is the risk of loss resulting from an obligor's potential inability or unwillingness to fully meet its contractual obligations. Exposure to this risk occurs any time funds are extended, committed or invested through actual or implied contractual agreements. Components of credit risk include: loan loss/principal risk, pre-settlement/replacement risk and settlement risk. Obligors include issuers, debtors, borrowers, brokers, policyholders, reinsurers, derivative counterparties and guarantors.

Credit exposure resulting from the purchase of fixed-income securities, which are primarily used to support policyholder liabilities. The Company also manages financial contracts with counterparties. Such contracts may be used to mitigate insurance and market risks (reinsurance ceded agreements and derivative contracts) or they may arise from the Company's direct business operations (Reinsurance business unit) and may result in counterparty risk. The risk arising from these types of arrangements is included in the Company's measurement of its risk profile.

CREDIT RISK MANAGEMENT

The Company's credit risk management framework focuses on minimizing undue concentration of assets, in-house credit analysis to identify and measure risks, continuous monitoring, and proactive management. Diversification is achieved through the establishment of appropriate concentration limits (by asset class, issuers, credit rating, industries, and individual geographies) and transaction approval authority protocols. The Company's approach to credit risk management includes the continuous review of its existing risk profile relative to the RAF as well as to the projection of potential changes in the risk profile under stress scenarios.

Effective governance of credit risk management requires the involvement of dedicated senior management committees, experienced credit risk personnel, and with the guidance of appropriate credit risk policies, standards and processes. For credit risk, the Investment Committee is responsible for the approval of investment decisions of significant size or level of complexity, and oversight of the Company's global investment strategy, including compliance with investment limits and policies as well as excess management. Additionally, the Investment Committee reviews the Company's investment policies, procedures, guidelines, and corresponding limits to ensure that investment decisions are in compliance with the Company's RAF. The Risk Committee advises the Board of Directors on credit risk oversight matters and approves and monitors compliance with credit risk policies and limits. The Risk Committee also provides oversight of the Credit Risk Policy and related processes and is responsible for ensuring compliance with the Company's RAF.

Management's Discussion and Analysis

The Investment Committee and Risk Committee are supported by senior management committees. The Global Management Investment Review Committee (GMIRC) and the Management Investment Review Committees (MIRCs) for each business segment review and approve new investments above the transaction approval authority delegated to management and manage credit risk across invested assets and counterparties. The Market and Credit Risk Committee (MCRC), is the ERM sub-committee responsible for providing oversight of market and credit risk management activities, which includes completing reviews and making recommendations regarding risk limits, the risk policy and associated compliance, excess management and mitigation pertaining to credit risk.

The Company has established business-segment specific Investment and Lending Policies, including investment limits for each asset class, which are approved by the Investment Committee. These policies and limits are complemented by the Credit Risk Policy which describes credit risk management processes and describes the role of the Risk Function in the oversight of credit risk, including the setting and monitoring of aggregate concentration risk limits, and the approval and escalation of exceptions.

The Company identifies credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness based on a thorough and objective analysis of business risk, financial profile, structural considerations and security characteristics including seniority and covenants. Credit risk ratings are expressed using a 22-point scale that is consistent with those used by external rating agencies. In accordance with the Company's policies, internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies. The Risk Function reviews and approves the credit risk ratings assigned by Investment Management for all new investments and reviews the appropriateness of ratings assigned to outstanding exposures.

The Risk Function assigns credit risk parameters (probabilities of default, rating transition rates, loss given default, exposures at default) to all credit exposures to measure the Company's aggregate credit risk profile. In addition, the Risk Function establishes limits and processes, performs stress and scenario testing (using stochastically generated and deterministic scenarios) and assesses compliance with the limits established in the RAF. It regularly reports on the Company's credit risk profile to executive management, the Board of Directors and various committees at enterprise, business segment and legal entity levels.

Investment Management and the Risk Function are independently responsible for the monitoring of exposures relative to limits as well as for the management and escalation of risk limit excesses as they occur. Investment Management is also responsible for the continuous monitoring of its portfolios for changes in credit outlook, and performs regular credit reviews of all relevant obligors and counterparties, based on a combination of bottom-up credit analysis and top-down views on the economy and assessment of industry and sub-sector outlooks. Watch Lists are also used at the business segment levels to plan and execute the relevant risk mitigation strategies for obligors experiencing heightened credit stress.

The Risk Function oversees monitoring, management of excesses and escalation activities, and has developed risk limits, RFIs and risk budgets to act as early warnings against unacceptable levels of concentration and to support the management of credit risk limits in compliance with the Company's RAF.

Counterparty Risk

Counterparties include both reinsurers and derivative counterparties.

The Company uses reinsurance to mitigate insurance risks. This mitigation results in increased credit risk to reinsurance counterparties from the potential failure to collect reinsurance recoveries due to either the inability, or an unwillingness to fulfill their contractual obligation.

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 through diversification as well as seeking protection in the form of collateral or funds withheld arrangements where possible.

The Company enters into derivative contracts primarily to mitigate market risks. Derivative counterparty risk is the risk of loss resulting from the potential failure of the derivative counterparty to meet their financial obligations under the contract. Derivative products are traded through exchanges or with counterparties approved by the Board of Directors or the Investment Committee. The Company seeks to mitigate derivative credit risk through diversification and through collateral arrangements where possible. In addition, the Company includes potential future exposure of derivatives in its measure of total exposure against single name limits.

INSURANCE RISK

RISK DESCRIPTION

Insurance risk is the risk of loss resulting from adverse changes in experience associated with contractual promises and obligations arising from insurance contracts. Insurance risk includes uncertainties around the ultimate amount of net cash flows (premiums, commissions, claims, payouts and related settlement expenses), the timing of the receipt and payment of these cash flows, as well as the impact of policyholder behaviour (e.g. lapses).

The Company identifies six broad categories of insurance risk, which may contribute to financial losses: mortality risk, morbidity risk, longevity risk, policyholder behaviour risk, expense risk and property catastrophe risk. Mortality risk, morbidity risk and longevity risk are core business risks and the exchange of these risks into value is a core business activity. Policyholder behaviour risk and expense risk associated with offering core products are accepted as a consequence of the business model and mitigated where appropriate. Property catastrophe risk is a selectively accepted business risk which is constrained, actively managed and controlled within risk limits.

INSURANCE RISK MANAGEMENT

Insurance products involve commitments by the insurer to provide services and financial obligations with coverage for extended periods of time. To provide insurance protection effectively, the insurer must design and price products so that the premiums received, and the investment income earned on those premiums, will be sufficient to pay future claims and expenses associated with the product. This requires the insurer, in pricing products and establishing insurance contract liabilities, to make assumptions regarding expected levels of income, claims and expenses and how policyholder behaviours and market risks might impact these assumptions. As a result, the Company is exposed to product design and pricing risk which is the risk of financial loss resulting from transacting business where the costs and liabilities arising in respect of a product line exceed the pricing expectations.

Insurance contract liabilities are established to fund future claims and include a provision for adverse deviation, set in accordance with professional actuarial standards. Insurance contract liability valuation requires regular updating of assumptions to reflect emerging experience.

A governance structure has been implemented for the management of insurance risk. Business units are the ultimate owners of insurance risk and as such have primary responsibility for the identification, measurement, management, monitoring and reporting of insurance risk. The Risk Function, supported by Corporate Actuarial, is primarily responsible for oversight of the insurance risk management framework. The Company has established an Insurance Risk Committee to provide oversight of insurance risk, which includes completing reviews and making recommendations regarding risk limits, the risk policy and associated compliance, excess management and mitigation pertaining to insurance risk. Each business segment has established oversight committees and operating committees to help manage insurance risk within the segment.

The Company's Insurance Risk Policy sets out the insurance risk management framework and provides the principles for insurance risk management. This policy is supported by several other policies and guidelines that provide detailed guidance, including:

- Product Design and Pricing Risk Management Policy and Reinsurance Risk Management Policy, which provide guidelines and standards for the product design and pricing risk management processes and reinsurance ceded risk management practices;
- Corporate Actuarial Valuation Policy, which provides documentation and control standards consistent with the valuation standards of the Canadian Institute of Actuaries; and
- Participating Account Management Policies and Participating Policyholder Dividend Policies, which govern the management of participating accounts and provide for the distribution of a portion of the earnings in the participating account as participating policyholder dividends.

The Risk Function, in conjunction with Corporate Actuarial, implements a number of processes to carry out its responsibility for oversight of insurance risk. It reviews the Insurance Risk Policy relative to current risk exposures and updates it as required. It reviews insurance risk management processes carried out by the business units, including product design and pricing, underwriting, claims adjudication, and reinsurance ceding, and provides challenge as required.

The Risk Function works with the business units and other oversight functions to identify current and emerging insurance risks and take appropriate action, if required. Insurance risk limits, risk budgets and RFIs are set to keep the insurance risk profile within the Company's appetite for insurance risk and the Risk Function regularly monitors the insurance risk profile relative to these measures. Any excesses are required to be escalated so that appropriate remediation may be implemented. The Risk Function performs stress testing and does analysis of insurance risks, including review of experience studies. It provides regular reporting on these activities to the business units, senior management, and risk oversight committees. The Risk Function performs thematic reviews and/or enhances the monitoring and reporting of associated exposures to these risks.

Risks and risk management activities associated with the broad insurance risk categories are detailed below.

Mortality and Morbidity Risk

Mortality risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance contract liabilities.

Morbidity risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of disability, health, dental, critical illness and other sickness rates, where an increase in the incidence rate or a decrease in the disability recovery rate leads to an increase in the value of insurance contract liabilities.

There is a risk that the Company will mis-estimate the level of mortality or morbidity, or write business which generates worse mortality and morbidity experience than expected.

The Company employs the following practices to manage its mortality and morbidity risk:

- Research and analysis is done regularly to provide the basis for pricing and valuation assumptions to properly reflect the insurance and reinsurance risks in markets where the Company is active.
- Underwriting limits, practices and policies control the amount of risk exposure, the selection of risks insured for consistency with claims expectations and support the long-term sustainability of the Company.
- The insurance contract liabilities established to fund future claims include a provision for adverse deviation, set in accordance with actuarial standards. This margin is required to provide for the possibilities of mis-estimation of the best estimate and/or future deterioration in the best estimate assumptions.
- The Company sets retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk where appropriate.
- For Group life products, exposure to a concentrated mortality event due to concentration of risk in specific locations for example, could have an impact on financial results. To manage the risk, concentrations are monitored for new business and renewals. The Company may impose single-event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive.

- Effective plan design and claims adjudication practices, for both morbidity and mortality risks are critical to the management of the risk. As an example, for Group healthcare products, inflation and utilization will influence the level of claims costs, which can be difficult to predict. The Company manages the impact of these and similar factors through plan designs that limit new costs and long-term price guarantees and include the ability to regularly re-price for emerging experience.
- The Company manages large blocks of business, which, in aggregate, are expected to result in relatively low statistical fluctuations in any given period. For some policies, these risks are shared with the policyholder through adjustments to future policyholder charges or in the case of participating policies through future changes in policyholder dividends.

Longevity Risk

Longevity risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance contract liabilities. Annuities, some segregated fund products with Guaranteed Minimum Withdrawal Benefits and longevity reinsurance are priced and valued to reflect the life expectancy of the annuitant. There is a risk that annuitants could live longer than was estimated by the Company, which would increase the value of the associated insurance contract liabilities.

Business is priced using mortality assumptions which consider recent Company and industry experience and the latest research on expected future trends in mortality.

Aggregate risk is managed through reinsurance to transfer the risk as appropriate, as well as consideration of capital market solutions if deemed necessary. The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to ensure annuity payments accrue to those contractually entitled to receive them and help ensure mortality data used to develop pricing and valuation assumptions is as complete as possible.

Policyholder Behaviour Risk

Policyholder behaviour risk is the risk of loss resulting from adverse changes in the level or volatility of the rates of policy lapses, terminations, renewals, surrenders, or exercise of embedded policy options.

Many products are priced and valued to reflect the expected duration of contracts and the exercising of options embedded in those contracts. There is a risk that contracts may be terminated earlier or later than assumed in pricing and plan design. To the extent that higher costs are incurred in early contract years, there is a risk that contracts are terminated before higher early expenses can be recovered. Conversely, on certain long-term level premium products where costs increase by age, there is risk that contracts are terminated later than assumed.

Business is priced using policy termination assumptions which consider product designs and policyholder options, recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated as necessary for both pricing of new policies and valuation of in-force policies.

The Company also incorporates early surrender charges into certain contracts and incorporates commission chargebacks in its distribution agreements to reduce unrecovered expenses.

Policyholder taxation rules in many jurisdictions help encourage the retention of insurance coverage.

Expense Risk

Expense risk is the risk of loss resulting from adverse variability of expenses incurred with fee-for-service business or in servicing and maintaining insurance, savings or reinsurance contracts, including direct expenses and allocations of overhead costs.

Expense management programs are regularly monitored to control unit costs while maintaining effective service delivery.

Property Catastrophe Risk

Property catastrophe risk is the risk of loss resulting from adverse changes in property damage experience and is mainly related to extreme or catastrophic events.

The reinsurance business in particular has exposure to extreme or catastrophic events that result in property damage. As a retrocessionaire for property catastrophe risk, the Company generally participates at more remote event-loss exposures than primary carriers and reinsurers. Generally, an event of significant size must occur prior to the Company incurring a claim. The Company limits the total maximum claim amount under all property catastrophe contracts. The Company monitors cedant companies' claims experience and research from third party expert risk models on an ongoing basis and incorporates this information in pricing models to ensure that the premium is adequate for the risk undertaken.

OPERATIONAL RISK

RISK DESCRIPTION

Operational Risk is the risk of loss resulting from potential problems relating to internal processes, people and systems or from external events. Exposure to Operational risk results from either normal day-to-day operations or a specific unanticipated event, and can have material financial and/or reputational consequences.

OPERATIONAL RISK MANAGEMENT

While operational risks can be mitigated and managed, they remain an inherent feature of the business model, as multiple processes, systems, and stakeholders are required to interact across the enterprise on an ongoing basis. The Company actively manages operational risk across the enterprise to maintain a strong reputation, standing and financial strength and to protect customers and the Company's value. Ongoing engagement of businesses and support functions across the enterprise through robust training and communications is regularly undertaken for identifying, assessing and mitigating operational risk issues.

Operational risk management governance and oversight reflects a combined effort between business units and oversight functions. The Risk Function is responsible for the development of operational risk management policies and operating standards as well as overseeing operational risk management activities performed in the first line of defense. The Operational Risk Committee has the primary mandate to provide risk oversight for operational risk across the enterprise. In addition, each business segment has established committees to oversee operational risk management within their business.

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The Company has an Operational Risk Policy that is supported by standards and guidelines that relate to specialized functions including detailed practices related to stress testing, modeling, fraud, regulatory compliance, information technology risk management and risk data aggregation & risk reporting. The Company implements controls to manage operational risk through integrated policies, procedures, processes and practices, with consideration given to the cost/benefit trade-off. Processes and controls are monitored and refined by the business areas and periodically reviewed by the Company's Internal Audit department. Financial reporting processes and controls are further examined by external auditors.

The Company also manages operational risks through the corporate insurance program which mitigates a portion of the operational risk exposure by purchasing insurance coverage that provides protection against unexpected material losses resulting from events such as property loss or damage and liability exposures. The nature and amount of insurance protection purchased is assessed with regard to the Company's risk profile, risk appetite and tolerance for the associated risks, as well as legal requirements and contractual obligations.

The Company employs a combination of operational risk management methods including risk and control assessments, internal control factors and risk events analyses. For the identification of operational risks, the Company utilizes risk and control assessments which systematically identify and assess potential operational risks and associated controls. Internal and external operational risk events are analyzed to identify root causes and provide insights into potential new operational risks that could impact the Company. In addition, scenario analysis is employed to identify and quantify potential severe operational risk exposures, while RFIs, risk appetite preferences, and other processes are leveraged to measure, manage and monitor operational risks.

The Risk Function monitors the status of actions being undertaken to remediate risks to ensure that risk exposures are mitigated in a timely manner. Processes are in place to escalate significant matters to senior management to inform and enable management to take appropriate action when needed. The Risk Function regularly reports on the Company's operational risk profile to executive management, the Board of Directors and various committees at enterprise, business segment and legal entity levels.

Key operational risks and the Company's approach to managing them are outlined below.

Legal and Regulatory Risk

Legal and regulatory risk is the risk of loss resulting from non-compliance with specific local or international rules, laws, regulations, or prescribed practices, as well as civil or criminal litigation engaged in/by the Company. As a multi-national company, the Company and certain of its subsidiaries are subject to extensive legal and regulatory requirements in Canada, the U.S., the U.K., Ireland, Germany and other jurisdictions. These requirements cover most aspects of the Company's operations including capital adequacy, privacy, liquidity and solvency, investments, the sale and marketing of insurance and wealth products, the business conduct of insurers, asset managers and investment advisors as well as reinsurance processes. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements could have an adverse effect on the Company. An increase in the pace of regulatory change could lead to increased operational costs to implement changes and ensure ongoing compliance.

Legal and regulatory risk is managed through coordination between first and second line of defense functions. The Company records, manages and monitors the regulatory compliance environment closely, using the subject matter expertise of both local and enterprise-wide Compliance and Legal stakeholders and reporting on emerging changes that could have a significant impact on the Company's operations or business.

The Company is subject to the risk of litigation and regulatory action relating to its business, operations, products, securities and contractual relationships and it establishes contingency reserves for litigation that it determines are appropriate.

People Risk

People risk is the risk of loss resulting from the Company's inability to attract, retain, train and develop the right talent from inadequate recruitment, talent management and succession planning programs and practices, ineffective governance practices or legal action related to discrimination, and can impact the ability of the Company to meet its business objectives. The Company has compensation programs, succession planning, talent management and employee engagement processes that are designed to manage these risks, support a high performance culture and maintain a highly skilled workforce that is reflective of the diverse cultures and practices of the countries in which the Company operates. The Company's ability to recognize and accommodate changing trends with respect to human resources in the industry is important to execute upon business strategies.

Infrastructure Risk

Infrastructure risk is the risk of loss resulting from the reduction or non-availability of any aspect of a fully functioning business environment, including corporate facilities, physical assets, human resources and/or technology (technology assets, systems, applications, cloud computing and virtualization), security (logical, physical and cyber), failures in license management and insufficient software/application support.

The ability to consistently and reliably obtain securities pricing information, accurately process client transactions and provide reports and other customer services is essential to the Company's operations. A failure of any of these services could have an adverse effect on the Company's results of operations and financial condition and could lead to loss of customer confidence, non-compliance of regulatory requirements, harm to the Company's reputation, exposure to disciplinary action and liability to the Company's customers.

The Company invests in and manages infrastructure that is intended to be sustainable and effective in meeting the Company's needs for a fully functioning and secure business operation that protects assets and stakeholder value. Infrastructure risk management programs include strong business continuity capabilities across the enterprise to manage incidents or outages and the recovery of critical functions in the event of a disaster. In addition, security measures are intended to deny unauthorized access to facilities, equipment and resources, and to protect personnel and property from damage or harm (such as espionage, theft or terrorist attacks) and events that could cause serious losses or damage.

Management's Discussion and Analysis

Physical Security Risk – Physical security risk is the risk of damage to physical assets, physical data, corporate facilities or human resources.

Physical security risk management entails safeguarding people, facilities, hardware and software assets, network infrastructure, and digital data from physical incidents which can cause significant loss to the organization. Physical security threats can be natural, such as weather events and floods, man-made, such as theft or workplace violence or inadvertent, such as industrial or motor vehicle accidents. Physical security strategies also complement the cybersecurity protocols, structures and technology that protect our digital assets.

The objective of physical security risk management is to identify, assess, and mitigate the impact of security risks to the Company, and utilize physical security measures which allow the Company to advance its overall objectives. Physical security risk management is a strategic approach that links the Company's physical security measures to its operations using established and acceptable risk management strategies.

IT and Cyber Risk – IT and cyber risk is the risk of loss resulting from events such as failures, faults or incompleteness in computer operations, or illegal or unauthorized use of computer systems. It includes the risk of cyber-attack that leads to unplanned outages, unauthorized access, or unplanned disclosure of confidential or restricted information resulting in a potential privacy non-compliance. IT risk includes not only the risk of existing failures, faults or incompleteness in computer operations but also the risk of a deterioration in the reliability and availability of internal, customer-facing, or vendor-supported applications, infrastructure systems and/or services. These risks can arise as a result of the Company's implementation or use of its own technology or as a result of the implementation or use of third party technology providers and other service providers.

The nature of advancing technology introduces additional uncertainty as to how the insurance industry will evolve. Cloud services, which are being adopted by the Company to improve systems flexibility and information security, require scrutiny as digital supply chains grow in complexity.

Technology is a critical component of the Company's business operations and is also central to the Company's customer-focused digital strategy. The Company continues to face technology and cyber risks stemming from legacy technology constraints and the advancement of techniques used in cyber-attacks.

The Company has been implementing new risk management processes and practices designed to allow it to better identify, measure, mitigate, and report this risk, but those processes and practices continue to require further development as well as ongoing updates as technology and business needs evolve. The Company's strategy and approach to managing technology and cyber risks includes policies that govern the technology environment and set standards related to information security and the use of technology, including:

- the use of multiple layers of technologies that are designed to prevent unauthorized access, ransomware attacks, distributed denial of service and other cyber-attacks;
- coordinated global and regional information security offices that gather threat intelligence, detect, monitor and respond to security events and conduct regular threat and vulnerability risk assessments;
- independent oversight and assessment of the approach taken to mitigate technology and cyber risks by the Technology Risk Management team, an independent group that acts as the second line of defense; and
- regular cyber security awareness sessions and mandatory cyber security training for all employees.

The Company also manages operational risks through the corporate insurance program which mitigates a portion of the operational risk exposure by purchasing insurance coverage that provides protection against unexpected material losses resulting from events such as property loss, cyber-attack or damage and liability exposures. The nature and amount of insurance protection purchased is assessed with regard to the Company's risk profile, risk appetite and tolerance for the associated risks, as well as legal requirements and contractual obligations.

Business Continuity Risk – Business continuity risk is the risk of loss as a result of the failure to provide for the continuity of business processes and operations under adverse conditions that may arise from natural, technological or human caused events involving the loss of sites, workforce disruptions, technology and supply chain outages.

A business continuity management framework has been implemented to manage business continuity risks and impacts through the development, testing, training and maintenance in four key areas: emergency response planning incident management planning, business continuity planning and disaster recovery planning.

Poor operational resiliency in the face of natural, technological, or human caused events could prevent the Company from carrying out mission-critical business processes, with potential for lost revenue, regulatory sanctions and damage to reputation.

Process Risk

Process risk is the risk of loss resulting from inadequate or failed business processes that deliver products and services and grow shareholder value. These processes include change management, data aggregation and reporting, product development, product introduction, new business (including the distribution and sales process) and renewal (including underwriting process), investment activities, client administration, claims and benefit payments, risk and financial modelling and financial management. The inadequacy can arise in transaction processing, governance, communication or general process management.

Management's Discussion and Analysis

Risk management seeks strategic alignment and congruency across all of the Company's business activities, including change initiatives and business-as-usual activities, with the Company's operational risk appetite and considers the potential impact on the Company's reputation. The Company monitors change initiatives to mitigate risks and realize benefits. Core business operational activities have quality control measures in place.

One of the processes relates to model risk and use of models. The Company uses models in many functions and processes that support business decisions and reporting. Model risk arises from the potential for adverse consequences from decisions based on incorrect models or misused model outputs and reports. Robust processes are in place for the management and oversight of model risk as outlined in the Model Risk Management and Validation Standard.

Further, the Company seeks to control processes across the value chain through automation, standardization and process improvements to prevent or reduce operational losses.

Fraud Risk

Fraud risk is the risk of loss resulting from acts or activities that are intended to defraud, misappropriate assets, or circumvent laws or regulations by customers, contractors or other third parties, directors, officers, employees or distribution associates. The external fraud environment continues to intensify for financial institutions, as increasingly sophisticated methods of organized fraud and cyber fraud are employed. Fraud can result in a financial loss or reputational impact to the Company and have other impacts that are detrimental to customers and other stakeholders.

The Company manages fraud through a combined focus on its governance framework, assessment, prevention, detection, investigation and response. The Company promotes a culture of honesty, integrity, transparency and fairness in its operations and further manages fiduciary responsibilities through the Company's Fraud Risk Management Policy, Fraud Risk Operating Standard and Code of Conduct. The Company has processes and controls in place that are intended to prevent fraud and employs various methods to detect fraud. A fraud response framework is in place to deal with events through a coordinated investigative strategy designed to protect stakeholders and the interests of the Company.

Supplier Risk

Supplier risk is the risk of financial loss, adverse operational impacts and reputational damage resulting from the failure to establish and manage adequate supplier arrangement transactions or other interactions to meet the expected or contracted service level. Supplier risk is applicable to both external and internal suppliers. The Company strategically engages suppliers to maintain cost efficiency, to optimize internal resources and capital and to utilize skills, expertise and resources not otherwise available to the Company. Suppliers are engaged based on our prescribed supplier risk management principles in our Supplier Risk Management Policy. The Company applies a supplier risk management framework to oversee and monitor interactions with suppliers throughout the entire supplier lifecycle, including how they meet standards for quality of service and protect stakeholders and the interests of the Company.

CONDUCT RISK

RISK DESCRIPTION

Conduct risk is the risk of unfair outcomes for customers as a result of inadequate or failed processes and/or inappropriate behaviours, offerings or interactions by the Company or its agents. A failure to identify and mitigate conduct risk impacts not only the Company's customers but can also have adverse reputational and financial consequences for the Company due to the cost of customer remediation, damage to reputation and/or regulatory fines.

CONDUCT RISK MANAGEMENT

The Company manages conduct risk through various processes which include:

- providing appropriate and clear customer disclosures and communications;
- applying product design, complaint, claims management and sales and advice processes that consider outcomes to customers; and
- conducting risk based advisor assessments and suitability reviews, maintaining controls and adhering to Board-approved policies and processes, including the Conduct Risk Policy and the Code of Conduct.

Conduct Risk is incorporated in risk management and compliance activities, including risk and control assessments, internal events reporting, emerging risk assessments, and other measurement, monitoring and reporting activities.

STRATEGIC RISK

RISK DESCRIPTION

Strategic Risk is the risk of failing to set or meet appropriate strategic objectives in the context of the internal and external operating environment resulting in a material impact on business performance (e.g. earnings, capital, reputation or standing).

The Company's ability to maintain leadership positions in today's highly competitive environment is dependent on many factors, including scale, price and yields offered, distribution channels, digital capabilities, financial strength ratings, range of product lines and product quality, brand strength, investment performance, historical dividend levels to provide value added services to distributors and customers and the ability to innovate and deploy innovations rapidly.

Competitors and new entrants have significant potential to disrupt the Company's business through targeted strategies to reduce the Company's market share which may include targeting key people and other distributors or aggressively pricing their products. The Company's ability to achieve strategic objectives depends significantly upon the Company's capacity to anticipate and respond quickly to these competitive pressures.

The Company has placed strategic focus on improving technology infrastructure and capabilities. Not adapting effectively to changes in the technological environment or to evolving customer expectations could impact the Company's ability to remain competitive.

There are significant uncertainties relating to the political and economic environment. Increasing geopolitical tensions and slower global economic recovery may result in reduced trade and investment opportunities, failures of national, regional or global governance, interstate conflict or terrorism which may impact the Company's business.

The Company evaluates and optimizes strategy through a combined lens to meet strategic objectives. It assesses market attractiveness and the ability to drive leadership in the markets, sectors, and regions where the Company chooses to participate, evaluates portfolio and businesses from the lens of shareholder value creation and embeds resilience in strategies and operations to anticipate and respond quickly to external environment and competitive pressures. This enables the Company to dynamically manage tactical initiatives that ensure strategies will be both achievable in the short term and sustainable over the long term.

STRATEGIC RISK MANAGEMENT

Strategic risk-taking is inherent to achieving strategic objectives and arises from the fundamental decisions made and actions taken concerning an organization's objectives. It may relate to or stem from the design and development of strategy, including the formulation, evaluation and ongoing validation of strategy, or execution of corporate and business strategies, and management of associated risks stemming from the same.

Strategic risk may reflect intentional risk-taking in anticipation or response to industry forces or it may emerge as unintended consequences from changes to strategy, execution of strategy, or from lack of responsiveness to external forces. The Company aligns business strategies with its Risk Appetite and mitigates exposure to strategic risk through strategic planning and value-based decision making, establishing appropriate performance indicators, reporting of strategy execution and implementation against strategic goals and ongoing monitoring, together with robust oversight and challenge. The Company carefully aligns business strategies with the Risk Appetite.

In respect initiatives, a review of the alignment with risk strategy and qualitative risk preferences is completed. Material change initiatives, including those related to new markets, mergers and acquisitions, distribution channels, product design and investments, are also subject to independent risk review.

OTHER RISKS

Holding Company Structure Risk

As a holding company, the Company's ability to pay interest, dividends and other operating expenses and to meet its obligations generally depends upon receipt of sufficient funds from its principal subsidiaries and its ability to raise additional capital.

In the event of bankruptcy, liquidation or reorganization of any of these subsidiaries, insurance and investment contract liabilities of these subsidiaries will be completely provided for before any assets of such subsidiaries are made available for distribution to the Company. In addition, the other creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to the Company except to the extent that the Company is recognized as a creditor of the relevant subsidiaries.

Any payment (including payment of interest and dividends) by the principal subsidiaries is subject to restrictions set forth in relevant insurance, securities, corporate and other laws and regulations, which require that solvency and capital standards be maintained by Canada Life, GWL&A, and their subsidiaries and certain subsidiaries of Putnam. There are considerable risks and benefits related to this structure.

Management monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company level. Management also establishes lines of credit for additional liquidity and may also access capital markets for funds. Management monitors compliance with the regulatory laws and regulations at both the holding company and operating company levels.

Mergers and Acquisitions Risk

From time-to-time, the Company and its subsidiaries evaluate existing companies, businesses, assets, products and services, and such review could result in the Company or its subsidiaries acquiring or disposing of businesses or assets. In the ordinary course of business, the Company considers and discusses the purchase or sale of companies, businesses segments or assets.

If effected, such transactions could be material to the Company in size or scope, could result in risks and contingencies, including integration risks, relating to companies, businesses or assets that the Company acquires or expose it to the risk of claims relating to those it has disposed of, could result in changes in the value of the securities of the Company, including the common shares of the Company, and could result in the Company holding additional capital for contingencies that may arise after the transaction is completed.

To mitigate these risks, due diligence reviews are undertaken and risks are assessed in the context of our Risk Appetite. Before acquiring or disposing of companies, businesses, business segments, or assets, businesses assess and provide assurance that systems and processes are in place to manage the risks after the transaction is completed.

Product Distribution Risk

Product distribution risk is the risk of loss resulting from the Company's inability to market its products through its network of distribution channels and intermediaries. These intermediaries generally offer their clients products in addition to, and in competition with, the Company's products, and are not obligated to continue working with the Company. In addition, certain investors rely on consultants to advise them on the choice of provider and the consultants may not always consider or recommend the Company. The loss of access to a distribution channel, the failure to maintain effective relationships with intermediaries or the failure to respond to changes in distribution channels could have a significant impact on the Company's ability to generate sales.

Product distribution risk is managed by maintaining a broad network of distribution relationships, with products distributed through numerous broker-dealers, managing general agencies, financial planners, banks and other financial institutions.

Sustainability Risk

Sustainability risk is the risk that business operations and business growth are not sustained due to failure to meet societal expectations related to corporate social responsibility.

Dynamics and attitudes towards societal issues have solidified and been further amplified during COVID-19. Factors such as diversity and inclusion and climate change are now a significant focus on the Company's strategic agenda. The Company may experience direct or indirect financial, operational or reputational impact stemming from societal related events, which include climate change, regulatory enforcement or costs associated with changes in environmental laws and regulations as well as diversity and inclusion related matters.

Sustainability considerations are formally reflected in the Company's risk management principles and associated policies. The Company recognizes that sustainability risk impacts both financial risks (market, credit, insurance) as well as non-financial risks (operational, conduct, strategic). Sustainability risk is not a stand-alone risk type, but underlies all risk types (e.g. credit, market, insurance, operational and strategic risk). As a result, the processes for managing sustainability risk are embedded in the processes for managing each risk type.

The Company endeavors to respect the environment and to take a balanced and sustainable approach to conducting business. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of investment properties, loans secured by real property and investments in equity and fixed-income securities. These policies are approved by the Board of Directors and are reviewed annually.

EXPOSURES AND SENSITIVITIES

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

In determining the Company's insurance contract liabilities, valuation assumptions are 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. When the assumptions are revised to reflect emerging experience or change in outlook, the result is a change in the value of liabilities which in turn affects the Company's earnings.

The following table illustrates the approximate impact to the Company's earnings that would arise as a result of changes to management's best estimate of certain assumptions. For changes in asset related assumptions, the sensitivity is shown net of the corresponding impact on earnings of the change in the value of the assets supporting liabilities.

Increase (decrease) in net earnings

	2020	2019
Mortality – 2% increase	\$ (288)	\$ (279)
Annuitant mortality – 2% decrease	\$ (756)	\$ (601)
Morbidity – 5% adverse change	\$ (279)	\$ (253)
Investment returns		
Parallel shift in yield curve		
1% increase	\$ –	\$ –
1% decrease	\$ –	\$ –
Change in interest rates		
1% increase	\$ 224	\$ 175
1% decrease	\$ (920)	\$ (619)
Change in publicly traded common stock values		
20% increase	\$ 28	\$ 54
10% increase	\$ 15	\$ 27
10% decrease	\$ (51)	\$ (39)
20% decrease	\$ (208)	\$ (182)
Change in other non-fixed income asset values		
10% increase	\$ 34	\$ 60
5% increase	\$ 6	\$ 25
5% decrease	\$ (69)	\$ (28)
10% decrease	\$ (108)	\$ (90)
Change in best estimate return assumptions for equities		
1% increase	\$ 556	\$ 509
1% decrease	\$ (682)	\$ (585)
Expenses – 5% increase	\$ (165)	\$ (125)
Policy termination and renewal – 10% adverse change	\$ (1,017)	\$ (813)

Refer to the "Accounting Policies – Summary of Critical Accounting Estimates" section of this document for additional information on earnings sensitivities.

ACCOUNTING POLICIES

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenue and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing market conditions related to global credit, equities, investment properties and foreign exchange and prevailing health and mortality experience. These estimates and judgments are more challenging in a period of uncertainty as is currently being experienced as a result of the COVID-19 pandemic. The fair value of portfolio investments, the valuation of goodwill and other intangible assets, the valuation of insurance contract liabilities and the recoverability of deferred tax asset carrying values reflect management's judgement based on current expectations but could be impacted in the future depending on current market developments.

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 independent third-party credit ratings where available as an input to its internal credit rating process. Investment properties, which are primarily held in the U.K. and Canada, rely upon independent third-party appraisals for their valuation which impact the estimation of insurance contract liabilities. Independent appraisals for the portfolio occur over the year with management adjustments for material changes in the interim periods. Credit rating changes for fixed income investments and market values for investment properties may lag developments in the current environment. Subsequent credit rating adjustments and market value adjustments on investment properties will impact actuarial liabilities.

The significant accounting estimates include the following:

Fair Value Measurement

Financial and other instruments held by the Company include portfolio investments, various derivative financial instruments, debentures and other debt instruments.

Financial instrument carrying values reflect the liquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

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

Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability.

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

Refer to note 9 in the Company's December 31, 2020 annual consolidated financial statements for disclosure of the Company's financial instruments fair value measurement by hierarchy level as at December 31, 2020.

Fair values for bonds classified as fair value through profit or loss or available-for-sale are determined using quoted market prices. Where prices are not quoted in an active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for equity release mortgages classified as fair value through profit or loss are determined by an internal valuation model that uses discounted future cash flows. Inputs to the model include marketable observable and non-market observable inputs.

Fair values for public stocks 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 are determined by discounting expected future cash flows based on expected dividends and where market value cannot be measured reliably, fair value is estimated to be equal to cost. Fair values for investment properties are determined using independent 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.

Investment 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 no longer reasonable assurance of timely collection of the full amount of the principal and interest due. 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.

Management's Discussion and Analysis

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 the estimated realizable value. For impaired available-for-sale bonds recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income (loss) 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, in the event of an impairment, the reduction will be recorded in net investment income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Goodwill and intangibles impairment testing

Goodwill and indefinite life intangible assets, including those resulting from an acquisition during the year, 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 has been allocated to cash generating unit groupings, representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill is tested for impairment by comparing the carrying value of each cash generating unit grouping to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Intangible assets have been allocated to cash generating units, representing the lowest level that the assets are monitored for internal reporting purposes.

Intangible assets with an indefinite useful life are reviewed annually to determine if there are indicators of impairment. If indicators of impairment have been identified, a test for impairment is performed and recognized as necessary. Impairment is assessed by comparing the carrying values of the assets to their recoverable amounts. 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.

Insurance and investment contract liabilities

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

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/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.

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

Mortality – A life insurance mortality study is carried out regularly 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. Annuitant mortality is also studied regularly, and the results are used to modify established annuitant mortality tables. 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 are made for future mortality deterioration on term insurance.

- A 2% increase in the best estimate life insurance mortality assumption would cause a decrease in net earnings of approximately \$288 million.
- A 2% decrease in the best estimate annuitant assumption would cause a decrease in net earnings of approximately \$756 million.

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. For products for which morbidity is a significant assumption, a 5% decrease in best estimate termination assumptions for claim liabilities and a 5% increase in best-estimate incidence assumptions for active life liabilities would cause a decrease in net earnings of approximately \$279 million.

Property and casualty reinsurance – Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG) are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities are based on cession statements provided by ceding companies. In addition, insurance contract liabilities also include an amount for incurred but not reported losses, which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in net earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns – The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to provide for reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries' prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions. If sustained, however, the parallel shift could impact the Company's range of scenarios covered.

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

- The effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios resulted in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios resulted in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

The total provision for interest rate is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries prescribed scenarios. The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact the Company's range of scenarios covered. The following is the impact to the value of liabilities net of changes in the value of assets supporting liabilities 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. For some products, interest rate risk is modelled stochastically in determining the insurance contract liabilities, and for those products, the sensitivities reflect the estimated impact of an immediate 1% increase and 1% decrease in interest rates on the liability.

- The effect of an immediate 1% increase in the low and high end of the range of interest rates recognized in the provisions would be to decrease these insurance and investment contract liabilities by approximately \$289 million causing an increase in net earnings of approximately \$224 million.
- The effect of an immediate 1% decrease in the low and high end of the range of interest rates recognized in the provisions would be to increase these insurance and investment contract liabilities by approximately \$1,185 million causing a decrease in net earnings of approximately \$920 million.

As at December 31, 2020, the accounting for the acquisition of MassMutual is not finalized pending completion of a comprehensive valuation of the net assets acquired. As such, the impact of the acquired business included in the sensitivities above reflects management's current best estimate of the sensitivities.

In addition to interest rates, the Company is also exposed to movements in equity markets.

Some insurance and investment contract liabilities with long-tail cash-flows are supported by publicly traded common stocks and investments in other non-fixed income assets, primarily comprised of investment properties, real estate funds, private stocks, and equity release mortgages. The value of the liabilities may fluctuate with changes in the value of the supporting assets. The liabilities for other products such as segregated fund products with guarantees also fluctuate with equity values.

There may be additional market and liability impacts as a result of changes in the value of publicly traded common stocks and other non-fixed income assets that will cause the liabilities to fluctuate differently than the equity values. This means that there is a greater impact on net earnings from larger falls in equity values, relative to the change in equity values. Falls in equity values beyond those shown in the table below would have a greater impact on net earnings, relative to the change in equity values. The following provides information on the expected impacts of an immediate 10% or 20% increase or decrease in the value of publicly traded common stocks on insurance and investment contract liabilities and on the shareholders' net earnings of the Company. The expected impacts take into account the expected changes in the value of assets supporting liabilities and hedge assets.

The following shows the impact of an immediate 10% or 20% increase or decrease in the value of publicly traded common stocks on insurance and investment contract liabilities and on the shareholders' net earnings of the Company. The expected impacts take into account the expected changes in the value of assets supporting liabilities and hedge assets:

- A 10% increase in publicly traded common stock values would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately \$18 million, causing an increase in net earnings of approximately \$15 million.
- A 10% decrease in publicly traded common stock values would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately \$62 million, causing a decrease in net earnings of approximately \$51 million.
- A 20% increase in publicly traded common stock values would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately \$34 million, causing an increase in net earnings of approximately \$28 million.

Management's Discussion and Analysis

- A 20% decrease in publicly traded common stock values would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately \$264 million, causing a decrease in net earnings of approximately \$208 million.

The following provides information on the expected impacts of an immediate 5% or 10% increase or decrease in the value of other non-fixed income assets on insurance and investment contract liabilities and on the shareholders' net earnings of the Company. The expected impacts take into account the expected changes in the value of assets supporting liabilities:

- A 5% increase in other non-fixed income asset values would be expected to decrease non-participating insurance and investment contract liabilities by approximately \$8 million, causing an increase in net earnings of approximately \$6 million.
- A 5% decrease in other non-fixed income asset values would be expected to increase non-participating insurance and investment contract liabilities by approximately \$88 million, causing a decrease in net earnings of approximately \$69 million.
- A 10% increase in other non-fixed income asset values would be expected to decrease non-participating insurance and investment contract liabilities by approximately \$41 million, causing an increase in net earnings of approximately \$34 million.
- A 10% decrease in other non-fixed income asset values would be expected to increase non-participating insurance and investment contract liabilities by approximately \$138 million, causing a decrease in net earnings of approximately \$108 million.

The best-estimate return assumptions for publicly traded common stocks, and other non-fixed income assets 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.

- A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately \$691 million causing an increase in net earnings of approximately \$556 million.
- A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately \$861 million causing a decrease in net earnings of approximately \$682 million.

For a further description of the Company's sensitivity to equity market and interest rate fluctuations, refer to "Financial Instruments Risk Management," note 8 in the Company's annual consolidated financial statements for the period ended December 31, 2020.

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 CALM as inflation is assumed to be correlated with new money interest rates. A 5% increase in the best estimate maintenance unit expense assumption would cause a decrease in net earnings of approximately \$165 million.

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's most significant exposures are in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of the term for renewable term policies in Canada and Capital and Risk Solutions. Industry experience has guided the Company's assumptions for these products as its own experience is very limited. A 10% adverse change in the best-estimate policy termination and renewal assumptions would cause a decrease in net earnings of approximately \$1,017 million.

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 otherwise based on judgement 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 impacting shareholders' net earnings is reflected in the impacts of changes in best estimate assumptions above.

Income taxes

The Company is subject to income tax laws in various jurisdictions. The Company's operations are complex and related income tax interpretations, regulations and legislation that pertain to its activities are subject to continual change. As life insurance companies, the Company's primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the *Income Tax Act (Canada)* for purposes of determining the amount of the Companies' income that will be subject to tax in Canada.

Management's Discussion and Analysis

Tax planning strategies to obtain tax efficiencies are used. The Company continually assesses the uncertainty associated with these strategies and holds an appropriate level of provisions for uncertain income tax positions. Accordingly, the provision for income taxes represents management's interpretation of the relevant income tax laws and its estimate of current and deferred income tax balances for the period. Deferred income tax assets and liabilities are recorded based on expected future income tax rates and management's assumptions regarding the expected timing of the reversal of temporary differences. The Company has substantial deferred income tax assets. The recognition of deferred income tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the realization of the asset.

The audit and review activities of tax authorities may affect the ultimate determination of the amounts of income taxes payable or receivable, deferred income tax assets or liabilities and income tax expense. Therefore, there can be no assurance that income taxes will be payable as anticipated and/or the amount and timing of receipt or use of the income tax related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived income tax issues and have increased the resources they put to these efforts.

Employee future benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for eligible employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay; however, these plans are closed to new entrants. Many of the subsidiaries' defined benefit pension plans also no longer provide future defined benefit accruals. The Company's defined benefit plan exposure is expected to reduce in future years. Where defined benefit pension accruals continue, active plan participants share in the cost of benefits through employee contributions in

respect of current service. Certain pension payments are indexed on either 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. Assets supporting the funded pension plans are held in separate trustee pension funds. Obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets. New hires and active plan participants in defined benefit plans closed to future defined benefit accruals are eligible for defined contribution benefits. The defined contribution pension plans provide pension benefits based on accumulated employee and employer contributions. The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. These plans are also closed to new entrants. For further information on the pension plans and other post-employment benefits refer to note 23 in the Company's December 31, 2020 annual consolidated financial statements.

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

Accounting for defined benefit pension and other post-employment benefits requires estimates of expected increases in compensation levels, indexation of certain pension payments, trends in health-care costs, the period of time over which benefits will be paid, as well as the appropriate discount rates for past and future service liabilities. These assumptions are determined by management using actuarial methods, and are reviewed and approved annually. Emerging experience that differs from the assumptions will be revealed in future valuations and will affect the future financial position of the plans and net periodic benefit costs.

Actuarial assumptions – employee future benefits

At December 31	Defined benefit pension plans		Other post-employment benefits	
	2020	2019	2020	2019
Actuarial assumptions used to determine benefit cost				
Discount rate – past service liabilities	2.6%	3.4%	3.1%	3.8%
Discount rate – future service liabilities	3.2%	3.8%	3.3%	4.4%
Rate of compensation increase	2.9%	3.0%	–	–
Future pension increases ⁽¹⁾	1.3%	1.4%	–	–
Actuarial assumptions used to determine defined benefit obligation				
Discount rate – past service liabilities	2.1%	2.6%	2.5%	3.1%
Rate of compensation increase	2.9%	2.9%	–	–
Future pension increases ⁽¹⁾	1.0%	1.3%	–	–
Medical cost trend rates:				
Initial medical cost trend rate			4.7%	4.7%
Ultimate medical cost trend rate			4.1%	4.1%
Year ultimate trend rate is reached			2039	2039

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

Management's Discussion and Analysis

Actuarial assumptions – 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 practices. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

As these assumptions relate to factors that are long-term in nature, they are subject to a degree of uncertainty. Differences between actual experience and the assumptions, as well as changes in the assumptions resulting from changes in future expectations, result in increases or decreases in the pension and post-employment benefits expense and defined benefit obligation in future years. There is no assurance that the plans will be able to earn assumed rates of return, and market driven changes to assumptions could impact future contributions and expenses.

The following table indicates the impact of changes to certain key assumptions related to pension and post-employment benefits.

Impact of a change of 1.0% in actuarial assumptions on defined benefit obligation ⁽¹⁾

	1% increase		1% decrease	
	2020	2019	2020	2019
Defined benefit pension plans:				
Impact of a change to the discount rate	\$ (1,350)	\$ (1,242)	\$ 1,784	\$ 1,630
Impact of a change to the rate of compensation increase	329	311	(291)	(284)
Impact of a change to the rate of inflation	662	598	(569)	(541)
Other post-employment benefits:				
Impact of a change to assumed medical cost trend rates	31	27	(26)	(23)
Impact of a change to the discount rate	(44)	(41)	53	50

(1) 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.

Funding – The Company's subsidiaries have both funded and unfunded pension plans as well as other post-employment benefit plans that are unfunded. The Company's subsidiaries' funded pension plans are funded to or above the amounts required by relevant legislation. During the year, the Company's subsidiaries contributed \$309 million (\$294 million in 2019) to the pension plans and made benefit payments of \$17 million (\$20 million in 2019) for post-employment benefits. The Company's subsidiaries expect to contribute \$294 million to the pension plans and make benefit payments of \$22 million for post-employment benefits in 2021.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Due to the evolving nature of IFRS, there are a number of IFRS changes impacting the Company in 2020, as well as standards that could impact the Company in future reporting periods. The Company actively monitors future IFRS changes proposed by the International Accounting Standards Board (IASB) to assess if the changes to the standards may have an impact on the Company's results or operations.

The Company adopted the narrow scope amendments to International Financial Reporting Standards (IFRS) for IFRS 3, *Business Combinations*; IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; and IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*, effective January 1, 2020. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

For a further description of the impact of the accounting policy change, refer to note 2 of the Company's December 31, 2020 annual consolidated financial statements.

IFRS that have changed or may change subsequent to 2020 and could impact the Company in future reporting periods, are set out in the following table:

STANDARD	SUMMARY OF FUTURE CHANGES
IFRS 17 – <i>Insurance Contracts</i>	In May 2017, the IASB issued IFRS 17, <i>Insurance Contracts</i> (IFRS 17), which will replace IFRS 4, <i>Insurance Contracts</i>. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard. In June 2020, the IASB finalized the amendments to IFRS 17, which included confirmation of the effective date for the standard of January 1, 2023. In addition, the IASB confirmed the extension to January 1, 2023 of the exemption for insurers to apply the financial instruments standard, IFRS 9, <i>Financial Instruments</i> (IFRS 9), keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The adoption of IFRS 17 is a significant initiative for the Company supported by a formal governance framework and project plan, for which substantial resources are being dedicated. The Company has assembled a project team that is working on implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. The project team is also monitoring developments from the IASB and various industry groups that the Company has representation on. The Company continues to make progress in implementing its project plan, with key policy decisions well advanced as well as significant progress on the technology solutions. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. For the General Measurement Model and Variable Fee Approach, IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment cash flows – the current estimates of amounts that a company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin – the future profit for providing insurance coverage. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfilment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the Canadian Asset Liability Method, where the discount rate was based on the yield curves of the assets supporting those liabilities. The future profit for providing insurance coverage (including impacts of new business) is reflected in the initial recognition of insurance contract liabilities and then recognized into profit or loss over time as the insurance services are 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. As a result of the new valuation methodologies required under IFRS 17, the Company expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how the Company accounts for its insurance contracts and how it reports financial performance in the Consolidated Statements of Earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the consolidated financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. The Company is also actively monitoring potential impacts on regulatory capital and the associated ratios and disclosures. The Company continues to assess all these impacts through its global implementation plan.

Management's Discussion and Analysis

STANDARD	SUMMARY OF FUTURE CHANGES
IFRS 9 – Financial Instruments	In July 2014, the IASB issued a final version of IFRS 9, <i>Financial Instruments</i> to replace IAS 39, <i>Financial Instruments: Recognition and Measurement</i>. 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, <i>Insurance Contracts</i> (IFRS 4). The amendment “Applying IFRS 9, <i>Financial Instruments</i> with IFRS 4, <i>Insurance Contracts</i>” provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows: • <i>Deferral Approach</i> – provides the option to defer implementation of IFRS 9 until the effective date of the new insurance contract standard; or • <i>Overlay Approach</i> – provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Company qualifies for the amendment and is applying the deferral approach to allow adoption of both IFRS 9 and IFRS 17 simultaneously. The disclosure for the measurement and classification of the Company's portfolio investments provides most of the information required by IFRS 9. The Company continues to evaluate the impact of the adoption of this standard with the adoption of IFRS 17.
IAS 37 – Provisions, Contingent Liabilities and Contingent Assets	In May 2020, the IASB issued amendments to IAS 37, <i>Provisions, Contingent Liabilities, and Contingent Assets</i>. The amendments specify which costs should be included when assessing whether a contract will be loss-making. These amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The Company is evaluating the impact of the adoption of these amendments.
Annual Improvements 2018-2020 Cycle	In May 2020, the IASB issued <i>Annual Improvements 2018-2020 Cycle</i> as part of its ongoing process to efficiently deal with non-urgent narrow scope amendments to IFRS. Two amendments were included in this issue that are applicable for the Company relating to IFRS 9, <i>Financial Instruments</i> and IFRS 16, <i>Leases</i>. The amendments are effective January 1, 2022. The Company is evaluating the impact of the adoption of these amendments.
IFRS 16 – Leases	In May 2020, the IASB published amendments to IFRS 16, <i>Leases</i> amending the standard to provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendments are effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted. The Company does not anticipate a significant impact on its consolidated financial statements as a result of this amendment.
IFRS 9 – Financial Instruments IAS 39 – Financial Instruments: Recognition and Measurement IFRS 7 – Financial Instruments: Disclosures IFRS 4 – Insurance Contracts and IFRS 16 – Leases	In August 2020, the IASB published <i>Interest Rate Benchmark Reform – Phase 2</i> which issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments provide relief from remeasurement impacts on financial instruments, and discontinuation of hedging relationships arising from reform of interest rate benchmarks, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted. The Company is monitoring the interest rate benchmark reform process and has established an internal program to fully transition to alternative reference rates by the end of 2021. The transition to alternative reference rates is not expected to impact the Company's risk management strategy. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

OTHER INFORMATION

Non-IFRS Financial Measures

The Company uses several non-IFRS measures to measure overall performance of the Company and to assess each of its business units. A financial measure is considered a non-IFRS measure for Canadian securities law purposes if it is presented other than in accordance with generally accepted accounting principles used for the Company's consolidated financial statements. The consolidated financial statements of the Company have been prepared in compliance with IFRS as issued by the IASB. Non-IFRS measures do not have a standardized meaning under IFRS and may not be comparable to similar financial measures presented by other issuers.

Base earnings and base earnings per share

Base earnings (loss) and financial measures based on base earnings (loss), including base earnings per common share and base return on equity, are non-IFRS financial measures. Base earnings reflect management's view of the underlying business performance of the Company and provides an alternate measure to understand the underlying business performance compared to IFRS net earnings. Base earnings (loss) exclude:

- The impact of actuarial assumption changes and other management actions;
- The net earnings impact related to the direct equity and interest rate market impacts on insurance and investment contract liabilities, net of hedging, and related deferred tax liabilities, which includes:
 - the impact of hedge ineffectiveness related to segregated fund guarantee liabilities that are hedged and the performance of the related hedge assets;
 - the impact on segregated fund guarantee liabilities not hedged;
 - the impact on general fund equity and investment properties supporting insurance contract liabilities;
 - other market impacts on insurance and investment contract liabilities and deferred tax liabilities, including those arising from the difference between actual and expected market movements; and
- Certain items that management believes are not indicative of the Company's underlying business results including restructuring costs, integration costs related to business acquisitions, material legal settlements, material impairment charges related to goodwill and intangible assets, impact of substantially enacted income tax rate changes and other tax impairments and net gains, losses or costs related to the disposition or acquisition of a business.

Base earnings

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Base earnings	\$ 741	\$ 679	\$ 831	\$ 2,669	\$ 2,704
Items excluded from Lifeco base earnings:					
Actuarial assumption changes and other management actions	(23)	66	(78)	113	170
Market-related impact on liabilities	(31)	18	(13)	(127)	(89)
Net gain/charge on business dispositions ⁽¹⁾	143	94	8	237	(191)
Transaction costs related to the acquisitions of Personal Capital and MassMutual	(47)	(31)	—	(78)	—
Revaluation of a deferred tax asset	196	—	(199)	196	(199)
Restructuring and integration costs	(67)	—	(36)	(67)	(36)
Net earnings – common shareholders	\$ 912	\$ 826	\$ 513	\$ 2,943	\$ 2,359
Base earnings per common share – basic	\$ 0.799	\$ 0.732	\$ 0.895	\$ 2.878	\$ 2.859
Items excluded from Lifeco base earnings:					
Actuarial assumption changes and other management actions	(0.025)	0.071	(0.084)	0.122	0.179
Market-related impact on liabilities	(0.033)	0.020	(0.014)	(0.137)	(0.095)
Net gain/charge on business dispositions ⁽¹⁾	0.154	0.101	0.009	0.255	(0.201)
Transaction costs related to the acquisitions of Personal Capital and MassMutual	(0.051)	(0.033)	—	(0.084)	—
Revaluation of a deferred tax asset	0.211	—	(0.215)	0.211	(0.210)
Restructuring and integration costs	(0.072)	—	(0.039)	(0.072)	(0.038)
Net earnings per common share – basic	\$ 0.983	\$ 0.891	\$ 0.552	\$ 3.173	\$ 2.494

(1) Net gain/charge on business dispositions includes:

- for the three and twelve months ended December 31, 2020 a net gain of \$143 million on the sale of GLC Asset Management Group Ltd. included in the Canada Corporate business unit;
- for the three months ended September 30, 2020 and twelve months ended December 31, 2020 a net gain of \$94 million on the sale of IPSI included in Europe Ireland business unit;
- for the three and twelve months ended December 31, 2019 a net gain of \$8 million on the sale of heritage block of individual policies to Scottish Friendly included in the Europe Corporate business unit; and
- for the twelve months ended December 31, 2019 a net charge of \$199 million (US\$148 million) relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business included in the U.S. Reinsured Insurance & Annuity Business unit.

Management's Discussion and Analysis

Return on equity (ROE)

The Company has a capital allocation methodology, which allocates financing costs in proportion to allocated capital. For the Canadian, European and Capital and Risk Solutions segments (essentially Canada Life), this allocation method generally tracks the regulatory capital requirements, while for U.S. Financial Services and U.S. Asset Management (Putnam), it tracks the financial statement carrying value of the business units. Total leverage capital is consistently allocated across all business units in proportion to total capital resulting in a debt-to-equity ratio in each business unit mirroring the consolidated Company.

The capital allocation methodology allows the Company to calculate comparable ROE for each business unit. These ROEs are therefore based on the capital the business unit has been allocated and the financing charges associated with that capital. IFRS does not prescribe the calculation of ROE and therefore a comparable

measure under IFRS is not available. To determine ROE and base ROE, respectively, net earnings (loss) and base net earnings (loss) for the trailing four quarters are divided by the average common shareholders' equity over the trailing four quarters. This measure provides an indicator of business unit profitability.

Premiums and deposits

Total premiums and deposits include premiums on risk-based insurance and annuity products net of ceded reinsurance (as defined under IFRS), premium equivalents on self-funded group insurance ASO contracts, deposits on individual and group segregated fund products as well as deposits on proprietary mutual funds and institutional accounts. Total premiums and deposits exclude the initial ceded premium related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business. This measure provides an indicator of top-line growth.

Premiums and deposits

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Amounts reported in the financial statements					
Net premium income (Life insurance, guaranteed annuities and insured health products)	\$ 11,747	\$ 9,976	\$ 9,478	\$ 43,019	\$ 24,510
Policyholder deposits (segregated funds):					
Individual products	3,962	3,578	5,446	15,034	16,947
Group products	1,679	1,538	1,913	6,882	7,738
Premiums and deposits reported in the financial statements	\$ 17,388	\$ 15,092	\$ 16,837	\$ 64,935	\$ 49,195
Self-funded premium equivalents (ASO contracts) and other	1,687	3,104	841	6,123	3,295
Proprietary mutual funds and institutional deposits	21,756	22,707	21,418	100,287	84,259
Add back: U.S. Individual Life Insurance & Annuity Business					
– initial reinsurance ceded premiums	–	–	–	–	13,889
Total premiums and deposits	\$ 40,831	\$ 40,903	\$ 39,096	\$ 171,345	\$ 150,638

Assets under management (AUM) and assets under administration (AUA)

Assets under management and assets under administration are non-IFRS measures that provide an indicator of the size and volume of the Company's overall business.

Assets under management include internally and externally managed funds where the Company has oversight of the investment policies. 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.

Other assets under administration includes assets where the Company only provides administration services for which the Company earns fees and other income. These assets are beneficially owned by the 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.

Total assets under administration includes total assets per financial statements, proprietary mutual funds and institutional net assets and other assets under administration.

Assets under administration

	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019
Total assets per financial statements	\$ 600,490	\$ 473,737	\$ 451,167
Proprietary mutual funds and institutional net assets	350,943	341,436	320,548
Total assets under management	951,433	815,173	771,715
Other assets under administration	1,024,414	845,862	857,966
Total assets under administration	\$1,975,847	\$1,661,035	\$ 1,629,681

Sales

Sales is a non-IFRS measure for which there is no comparable measure in IFRS and is an indicator of new business growth. Sales are measured according to product type:

- For risk-based insurance and annuity products, sales include 100% of single premium and annualized premiums expected in the first twelve months of the plan.
- Group insurance and ASO sales reflect annualized premiums and premium equivalents for new policies and new benefits covered or expansion of coverage on existing policies.
- For individual wealth management products, sales include deposits on segregated fund products, proprietary mutual funds and institutional accounts as well as deposits on non-proprietary mutual funds.
- For group wealth management products, sales include assets transferred from previous plan providers and the expected annual contributions from the new plan.

Impact of currency movement

Items impacting the Company's Consolidated Statements of Earnings, such as income and benefits and expenses and net earnings, are translated into Canadian dollars at an average rate for the period. For items impacting the Company's Consolidated Balance Sheets, such as assets and liabilities, period end rates are used for currency translation purposes.

Core net earnings ⁽¹⁾

	For the three months ended			For the twelve months ended	
	Dec. 31 2020	Sept. 30 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Core net earnings	\$ 49	\$ 25	\$ 28	\$ 68	\$ 78
Less: Financing and other expenses	(14)	(12)	(10)	(50)	(45)
Net earnings (loss)	\$ 35	\$ 13	\$ 18	\$ 18	\$ 33
Core net earnings (US\$)	\$ 37	\$ 19	\$ 21	\$ 51	\$ 59
Less: Financing and other expenses (US\$)	(11)	(9)	(8)	(37)	(35)
Net earnings (loss) (US\$)	\$ 26	\$ 10	\$ 13	\$ 14	\$ 24

(1) For the Asset Management business unit, there were no differences between net earnings (loss) and base earnings (loss) in the periods presented.

Throughout this document a number of terms are used to highlight the impact of foreign exchange on results, such as: "constant currency basis" and "impact of currency movement". These measures highlight the impact of changes in currency translation rates on Canadian dollar equivalent IFRS results and have been calculated using the average or period end rates, as appropriate, in effect at the date of the comparative period. These measures provide useful information as it facilitates the comparability of results between periods.

Pre-tax operating margin

For the Company's Asset Management business unit in the U.S. segment, this ratio provides measure of the profitability of the business unit. It is based on the business unit's pre-tax core net earnings (loss) divided by the sum of fee income and net investment income. There is no directly comparable IFRS measure.

Core net earnings (loss)

For its Asset Management business unit in the U.S segment, the Company discloses core net earnings (loss), which is a measure of the business unit's performance. Core net earnings (loss) includes the impact of dealer commissions and software amortization and excludes the impact of certain corporate financing charges and allocations, certain tax adjustments and other non-recurring transactions.

Management's Discussion and Analysis

SELECTED ANNUAL INFORMATION

(in \$ millions, except per share amounts)	Years ended December 31		
	2020	2019	2018
Total revenue	\$ 60,583	\$ 44,698	\$ 44,032
Earnings – common shareholders			
Net earnings	2,943	2,359	2,961
Base earnings	2,669	2,704	2,380
Net earnings per common share			
Basic – net earnings	3.173	2.494	2.996
Diluted – net earnings	3.172	2.493	2.994
Basic – base earnings	2.878	2.859	2.408
Diluted – base earnings	2.877	2.857	2.406
Total assets			
Total assets	\$ 600,490	\$ 451,167	\$ 427,689
Proprietary mutual funds and institutional assets ⁽¹⁾	350,943	320,548	281,664
Total assets under management ⁽¹⁾	951,433	771,715	709,353
Other assets under administration ⁽¹⁾	1,024,414	857,966	689,520
Total assets under administration ⁽¹⁾	\$ 1,975,847	\$ 1,629,681	\$ 1,398,873
Total liabilities	\$ 573,475	\$ 425,624	\$ 400,291
Dividends paid per share			
Series F First Preferred	1.4750	1.4750	1.4750
Series G First Preferred	1.3000	1.3000	1.3000
Series H First Preferred	1.21252	1.21252	1.21252
Series I First Preferred	1.1250	1.1250	1.1250
Series L First Preferred	1.41250	1.41250	1.41250
Series M First Preferred	1.450	1.450	1.450
Series N First Preferred ⁽²⁾	0.544000	0.544000	0.544000
Series O First Preferred ⁽³⁾	0.556412	0.744956	0.628745
Series P First Preferred	1.350	1.350	1.350
Series Q First Preferred	1.2875	1.2875	1.2875
Series R First Preferred	1.200	1.200	1.200
Series S First Preferred	1.312500	1.312500	1.312500
Series T First Preferred	1.2875	1.2875	1.2875
Common	1.752	1.652	1.556

(1) This metric is a non-IFRS measure. Refer to the "Non-IFRS Financial Measures" section of this document for additional details.

(2) The Series N First Preferred Share dividend was reset to a five year fixed dividend rate of 2.176% per annum on December 30, 2015. On December 31, 2020, the dividend was reset to a five year fixed dividend rate of 1.749% per annum which applies until December 30, 2025.

(3) The Series O First Preferred Share dividend was reset to 3 month floating dividend rate on December 30, 2015. The floating dividend rate is reset quarterly to the three month Government of Canada Treasury Bill yield plus 1.30%. Please refer to the "Lifeco Capital Structure" section of this document for additional details on the conversion.

Management's Discussion and Analysis

QUARTERLY FINANCIAL INFORMATION

(in \$ millions, except per share amounts)	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue⁽¹⁾	\$ 16,860	\$ 13,740	\$ 19,710	\$ 10,273	\$ 10,689	\$ 14,374	\$ 2,746	\$ 16,889
Common shareholders								
Base earnings⁽²⁾								
Total	\$ 741	\$ 679	\$ 706	\$ 543	\$ 831	\$ 677	\$ 627	\$ 569
Basic – per share	0.799	0.732	0.761	0.585	0.895	0.729	0.668	0.576
Diluted – per share	0.799	0.732	0.761	0.585	0.894	0.728	0.667	0.576
Net earnings								
Total	\$ 912	\$ 826	\$ 863	\$ 342	\$ 513	\$ 730	\$ 459	\$ 657
Basic – per share	0.983	0.891	0.930	0.369	0.552	0.786	0.489	0.665
Diluted – per share	0.983	0.891	0.930	0.369	0.552	0.785	0.489	0.665

(1) Revenue includes the changes in fair value through profit or loss on investment assets, an initial premium ceded to Protective Life (\$13,889 million for the three months ended June 30, 2019) and a ceding commission received from Protective Life (\$1,080 million for the three months ended June 30, 2019) related to the sale, via indemnity reinsurance, of the individual life insurance and annuity business.

(2) Base earnings attributable to common shareholders and base earnings per common share are non-IFRS measures of earnings performance. The following items were excluded from base earnings in each quarter:

Items excluded from base earnings

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Actuarial assumption changes and other management actions	\$ (23)	\$ 66	\$ 122	\$ (52)	\$ (78)	\$ 81	\$ 38	\$ 129
Market-related impact on liabilities	(31)	18	35	(149)	(13)	(28)	(7)	(41)
Net gain/charge on business dispositions	143	94	–	–	8	–	(199)	–
Transaction costs related to the acquisitions of Personal Capital and MassMutual	(47)	(31)	–	–	–	–	–	–
Revaluation of a deferred tax asset	196	–	–	–	(199)	–	–	–
Restructuring and integration costs	(67)	–	–	–	(36)	–	–	–
Total	\$ 171	\$ 147	\$ 157	\$ (201)	\$ (318)	\$ 53	\$ (168)	\$ 88

Lifeco's consolidated net earnings attributable to common shareholders were \$912 million for the fourth quarter of 2020 compared to \$513 million reported a year ago. On a per share basis, this represents \$0.983 per common share (\$0.983 diluted) for the fourth quarter of 2020 compared to \$0.552 per common share (\$0.552 diluted) a year ago.

Total revenue for the fourth quarter of 2020 was \$16,860 million and comprises premium income of \$11,747 million, regular net investment income of \$1,560 million, a positive change in fair value through profit or loss on investment assets of \$1,984 million and fee and other income of \$1,569 million.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed or submitted by it under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2020 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining effective internal control over financial reporting. All internal control systems have inherent limitations and may become ineffective because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the 2013 *Internal Control – Integrated Framework* (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management adopted the revised 2013 COSO Framework in 2015 as the basis to evaluate the effectiveness of the Lifeco's internal control over financial reporting.

During the twelve months ended December 31, 2020, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Internal controls over financial reporting have been adapted for the remote work environment that has resulted from the COVID-19 pandemic, as necessary, and were effective. Management evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2020 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting.

Limitation on Disclosure Controls and Procedures & Internal Control Over Financial Reporting

As permitted by securities legislation, for the period ended December 31, 2020, the Company's management has limited the scope of its design of the Company's disclosure controls and procedures and the Company's internal control over financial reporting to exclude controls, policies and procedures of MassMutual, which the Company acquired on December 31, 2020.

During the year ended December 31, 2020, the Company incurred acquisition expenses of \$52 million post-tax (US\$40 million post-tax) which are included within operating and administrative expenses in the Consolidated Statements of Earnings. As the acquisition occurred on December 31, 2020, the reinsured business did not contribute to 2020 earnings. At December 31, 2020, the estimated total assets and goodwill acquired was \$115,169 million. Total estimated liabilities were \$112,232 million with the final valuation of the assets acquired and liabilities assumed expected to occur during 2021.

RELATIONSHIP WITH POWER CORPORATION GROUP OF COMPANIES

Lifeco's controlling shareholder is Power Financial Corporation (Power Financial), which is controlled by Power Corporation of Canada (Power Corporation) and, ultimately, by the Desmarais Family Residuary Trust. Power Corporation also controls IGM Financial Inc. and its subsidiaries (IGM), as well as Portag3 Ventures II Limited Partnership (Portag3), which invests in the FinTech sector and in which both Lifeco and IGM are investors. Some of these related entities operate in similar or related sectors to those in which Lifeco's subsidiaries operate. A number of the Company's directors are also directors or officers of Power Corporation or one of its affiliates.

Lifeco's relationship with Power Financial, Power Corporation, IGM, Portag3 and other members of the Power Corporation group of companies enables Lifeco to access expertise and industry knowledge, achieve economies of scale and access investment opportunities. As a result of these relationships, Lifeco and other members of the Power Corporation group of companies may become aware of opportunities that are also of potential interest to other members of the group and Lifeco may share information for that purpose. Power Corporation and Power Financial from time to time also assist Lifeco to identify and analyze strategic corporate opportunities that may be of potential interest to it. However, Power Corporation and Power Financial have no commitment to Lifeco that would require them or their respective subsidiaries, directors or officers to offer any particular opportunity to Lifeco.

The Company has related party procedures that require, among other things, transactions between the Company and its subsidiaries and any member of the Power Corporation group of companies to be on terms no less favourable than market terms or where there is no open market, on terms that would reasonably be expected to provide at least fair value to the Company. Under the related party procedures, any material related party transactions must be reviewed and approved by a conduct review committee composed entirely of directors who are independent of management and Power Corporation and its affiliates.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Canada Life and Putnam enter into various transactions with related companies, which include providing insurance benefits and sub-advisory services to other companies within the Power Financial group of companies enabling each organization to take advantage of economies of scale and areas of expertise. In all cases, transactions were at market terms and conditions.

During the year, Canada Life provided to and received from IGM and its subsidiaries, a member of the Power Financial group of companies, certain administrative and information technology services. During the year, IGM notified the Company that it intends to terminate its long-term technology infrastructure related sharing agreement in the first quarter of 2021. In addition, Canada Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. In addition, Canada Life provided distribution services to IGM. All transactions were provided at market terms and conditions.

Management's Discussion and Analysis

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

On December 31, 2020, the Company completed the sale of GLC to Mackenzie, an affiliate of the Company. This is a related party transaction and board of directors of each of the Company and its subsidiary, Canada Life, established a committee of directors independent of management and Mackenzie to assess, review and consider the proposed terms of the transaction and to make recommendations regarding the transaction to its board of directors.

On August 17, 2020, Empower Retirement, Lifeco's U.S. retirement services business, acquired Personal Capital. Prior to completion of the Personal Capital acquisition, IGM Financial Inc., an affiliated company controlled by Power Corporation, held a 24.8% interest in Personal Capital (approximately 21.7% after giving effect to dilution). The transaction resulted from an auction process conducted by Personal Capital and shareholders other than IGM.

During 2020, the Company and Mackenzie jointly acquired a non-controlling interest in Northleaf, a premier global private equity, private credit and infrastructure fund manager.

At December 31, 2020, the Company held \$110 million (\$101 million in 2019) of debentures issued by IGM.

During the normal course of business in 2020, the Company purchased residential mortgages of \$21 million from IGM (\$11 million in 2019).

The Company owns 9,200,518 shares representing 3.86% ownership interest, held through Canada Life, in IGM an affiliated company controlled by Power Corporation. The Company uses the equity method to account for its investment in IGM as it exercises significant influence. In 2020, the Company earned equity income of \$25 million and received dividends of \$21 million from the investment in IGM.

The Company holds investments in Portag3 Ventures Limited Partnership, Portag3 Ventures II Limited Partnership, Wealthsimple Europe S.a.r.l. and other entities which invest in the FinTech sector. These investments were made in partnership with Power Corporation, IGM and, in certain circumstances, outside investors.

The Company provides asset management, employee benefits and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of the Company and its subsidiaries. These transactions were provided at market terms and conditions.

There were no material loans or guarantees issued to or from related parties during 2020 or 2019. There were no significant outstanding loans or guarantees with related parties at December 31, 2020 or December 31, 2019. There were no provisions for uncollectible amounts with related parties at December 31, 2020 or December 31, 2019.

TRANSLATION OF FOREIGN CURRENCY

Through its operating subsidiaries, Lifeco conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the U.S. dollar, the British pound and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the reporting period. All income and expense items are translated at an average rate for the period. The rates employed are:

Translation of foreign currency

Period ended	2020				2019			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
United States dollar								
Balance sheet	\$ 1.27	\$ 1.33	\$ 1.36	\$ 1.40	\$ 1.30	\$ 1.32	\$ 1.31	\$ 1.34
Income and expenses	\$ 1.30	\$ 1.33	\$ 1.39	\$ 1.34	\$ 1.32	\$ 1.32	\$ 1.34	\$ 1.33
British pound								
Balance sheet	\$ 1.74	\$ 1.72	\$ 1.68	\$ 1.74	\$ 1.72	\$ 1.63	\$ 1.66	\$ 1.74
Income and expenses	\$ 1.72	\$ 1.72	\$ 1.72	\$ 1.72	\$ 1.70	\$ 1.63	\$ 1.72	\$ 1.73
Euro								
Balance sheet	\$ 1.55	\$ 1.56	\$ 1.52	\$ 1.55	\$ 1.46	\$ 1.44	\$ 1.49	\$ 1.50
Income and expenses	\$ 1.55	\$ 1.56	\$ 1.53	\$ 1.48	\$ 1.46	\$ 1.47	\$ 1.50	\$ 1.51

Additional information relating to Lifeco, including Lifeco's most recent consolidated financial statements, CEO/CFO certification and Annual Information Form are available at www.sedar.com.

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Consolidated Statements of Earnings

(in Canadian \$ millions except per share amounts)

For the years ended December 31	2020	2019
Income		
Premium income		
Gross premiums written	\$ 47,754	\$ 43,266
Ceded premiums	(4,735)	(18,756)
Total net premiums	43,019	24,510
Net investment income (note 6)		
Regular net investment income	5,963	6,161
Changes in fair value through profit or loss	5,699	6,946
Total net investment income	11,662	13,107
Fee and other income	5,902	7,081
	60,583	44,698
Benefits and expenses		
Policyholder benefits		
Gross	39,605	37,769
Ceded	(2,946)	(2,916)
Total net policyholder benefits	36,659	34,853
Changes in insurance and investment contract liabilities		
Gross	12,079	10,155
Ceded	(1,751)	(13,479)
Total net changes in insurance and investment contract liabilities	10,328	(3,324)
Policyholder dividends and experience refunds	1,500	1,562
Total paid or credited to policyholders	48,487	33,091
Commissions	2,396	2,429
Operating and administrative expenses (note 27)	5,492	5,231
Premium taxes	480	506
Financing charges (note 16)	284	285
Amortization of finite life intangible assets (note 10)	238	224
Restructuring and integration expenses (note 4)	134	52
Earnings before income taxes	3,072	2,880
Income taxes (note 26)	(82)	373
Net earnings before non-controlling interests	3,154	2,507
Attributable to non-controlling interests (note 18)	78	15
Net earnings	3,076	2,492
Preferred share dividends (note 20)	133	133
Net earnings – common shareholders	\$ 2,943	\$ 2,359
Earnings per common share (note 20)		
Basic	\$ 3.173	\$ 2.494
Diluted	\$ 3.172	\$ 2.493

Consolidated Statements of Comprehensive Income

(in Canadian \$ millions)

For the years ended December 31

	2020	2019
Net earnings	\$ 3,076	\$ 2,492
Other comprehensive income		
Items that may be reclassified subsequently to Consolidated Statements of Earnings		
Unrealized foreign exchange gains (losses) on translation of foreign operations	105	(561)
Income tax (expense) benefit	(2)	–
Unrealized foreign exchange gains (losses) on euro debt designated as hedges of the net investment in foreign operations	(90)	100
Income tax (expense) benefit	12	(14)
Unrealized gains (losses) on available-for-sale assets	287	232
Income tax (expense) benefit	(49)	(37)
Realized (gains) losses on available-for-sale assets	(141)	(69)
Income tax expense (benefit)	15	6
Unrealized gains (losses) on cash flow hedges	36	2
Income tax (expense) benefit	(10)	–
Realized (gains) losses on cash flow hedges	(21)	–
Income tax expense (benefit)	6	–
Non-controlling interests	(69)	(46)
Income tax (expense) benefit	21	7
Total items that may be reclassified	100	(380)
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)	(169)	(226)
Income tax (expense) benefit	40	47
Revaluation surplus on transfer to investment properties (note 9)	11	–
Income tax (expense) benefit	(1)	–
Non-controlling interests	15	13
Income tax (expense) benefit	(4)	(4)
Total items that will not be reclassified	(108)	(170)
Total other comprehensive income (loss)	(8)	(550)
Comprehensive income	\$ 3,068	\$ 1,942

Consolidated Balance Sheets

(in Canadian \$ millions)

December 31	2020	2019
Assets		
Cash and cash equivalents (note 5)	\$ 7,946	\$ 4,628
Bonds (note 6)	137,592	115,028
Mortgage loans (note 6)	27,803	24,268
Stocks (note 6)	11,000	10,375
Investment properties (note 6)	6,270	5,887
Loans to policyholders	8,387	8,601
	198,998	168,787
Funds held by ceding insurers (note 7)	18,383	8,714
Reinsurance assets (note 13)	22,121	20,707
Goodwill (note 10)	10,106	6,505
Intangible assets (note 10)	4,285	3,879
Derivative financial instruments (note 28)	829	451
Owner occupied properties (note 11)	741	727
Fixed assets (note 11)	426	455
Other assets (note 12)	3,347	3,110
Premiums in course of collection, accounts and interest receivable	6,102	5,881
Current income taxes	145	236
Deferred tax assets (note 26)	975	693
Investments on account of segregated fund policyholders (note 14)	334,032	231,022
Total assets	\$ 600,490	\$ 451,167
Liabilities		
Insurance contract liabilities (note 13)	\$ 208,902	\$ 174,521
Investment contract liabilities (note 13)	9,145	1,656
Debentures and other debt instruments (note 15)	9,693	5,993
Funds held under reinsurance contracts	1,648	1,433
Derivative financial instruments (note 28)	1,221	1,381
Accounts payable	2,698	3,352
Other liabilities (note 17)	5,147	4,689
Current income taxes	343	461
Deferred tax liabilities (note 26)	646	1,116
Investment and insurance contracts on account of segregated fund policyholders (note 14)	334,032	231,022
Total liabilities	573,475	425,624
Equity		
Non-controlling interests (note 18)		
Participating account surplus in subsidiaries	2,871	2,759
Non-controlling interests in subsidiaries	116	107
Shareholders' equity		
Share capital (note 19)		
Preferred shares	2,714	2,714
Common shares	5,651	5,633
Accumulated surplus	14,990	13,660
Accumulated other comprehensive income (note 24)	487	495
Contributed surplus	186	175
Total equity	27,015	25,543
Total liabilities and equity	\$ 600,490	\$ 451,167

Approved by the Board of Directors:

Signed,	Signed,
Jeffrey Orr	Paul Mahon
Chair of the Board	President and Chief Executive Officer

Consolidated Statements of Changes in Equity

(in Canadian \$ millions)

	December 31, 2020					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	\$ 8,347	\$ 175	\$ 13,660	\$ 495	\$ 2,866	\$ 25,543
Net earnings	—	—	3,076	—	78	3,154
Other comprehensive income (loss)	—	—	—	(8)	37	29
	8,347	175	16,736	487	2,981	28,726
Dividends to shareholders						
Preferred shareholders (note 20)	—	—	(133)	—	—	(133)
Common shareholders	—	—	(1,626)	—	—	(1,626)
Shares exercised and issued under share-based payment plans (note 19)	18	(50)	—	—	49	17
Share-based payment plans expense	—	54	—	—	—	54
Equity settlement of Putnam share-based plans	—	—	—	—	(15)	(15)
Shares cancelled under Putnam share-based plans	—	7	—	—	(15)	(8)
Dilution gain on non-controlling interests	—	—	13	—	(13)	—
Balance, end of year	\$ 8,365	\$ 186	\$ 14,990	\$ 487	\$ 2,987	\$ 27,015

	December 31, 2019					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	\$ 9,997	\$ 139	\$ 13,342	\$ 1,045	\$ 2,875	\$ 27,398
Change in accounting policy	—	—	(109)	—	—	(109)
Revised balance, beginning of year	9,997	139	13,233	1,045	2,875	27,289
Net earnings	—	—	2,492	—	15	2,507
Other comprehensive income (loss)	—	—	—	(550)	30	(520)
	9,997	139	15,725	495	2,920	29,276
Dividends to shareholders						
Preferred shareholders (note 20)	—	—	(133)	—	—	(133)
Common shareholders	—	—	(1,559)	—	—	(1,559)
Shares exercised and issued under share-based payment plans (note 19)	39	(36)	—	—	31	34
Share-based payment plans expense	—	37	—	—	—	37
Equity settlement of Putnam share-based plans	—	—	—	—	(33)	(33)
Shares purchased and cancelled under Substantial Issuer Bid (note 19)	(2,000)	—	—	—	—	(2,000)
Excess of redemption proceeds over stated capital per Substantial Issuer Bid (note 19)	1,628	—	(1,628)	—	—	—
Common share carrying value adjustment per Substantial Issuer Bid (note 19)	(1,304)	—	1,304	—	—	—
Substantial Issuer Bid transaction costs (note 19)	—	—	(3)	—	—	(3)
Shares purchased and cancelled under Normal Course Issuer Bid (note 19)	(66)	—	—	—	—	(66)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 19)	53	—	(53)	—	—	—
Shares cancelled under Putnam share-based plans	—	35	—	—	(45)	(10)
Dilution gain on non-controlling interests	—	—	7	—	(7)	—
Balance, end of year	\$ 8,347	\$ 175	\$ 13,660	\$ 495	\$ 2,866	\$ 25,543

Consolidated Statements of Cash Flows

(in Canadian \$ millions)

For the years ended December 31

	2020	2019
Operations		
Earnings before income taxes	\$ 3,072	\$ 2,880
Income taxes paid, net of refunds received	(367)	(235)
Adjustments:		
Change in insurance and investment contract liabilities	14,476	10,412
Change in funds held by ceding insurers	467	570
Change in funds held under reinsurance contracts	201	81
Change in reinsurance assets	(1,629)	(900)
Changes in fair value through profit or loss	(5,699)	(6,946)
Other	(911)	248
	9,610	6,110
Financing Activities		
Issue of common shares (note 19)	18	39
Purchased and cancelled common shares (note 19)	–	(2,066)
Substantial issuer bid transaction costs (note 19)	–	(3)
Issue of debentures and senior notes (note 15)	3,713	–
Repayment of debentures (note 15)	(500)	(232)
Increase (decrease) in line of credit of subsidiaries	539	(28)
Increase (decrease) in debentures and other debt instruments	(1)	1
Dividends paid on common shares	(1,626)	(1,559)
Dividends paid on preferred shares (note 20)	(133)	(133)
	2,010	(3,981)
Investment Activities		
Bond sales and maturities	22,650	25,155
Mortgage loan repayments	2,339	2,532
Stock sales	3,859	2,814
Investment property sales	73	5
Change in loans to policyholders	84	16
Business acquisitions, net of cash and cash equivalents acquired (note 3)	(1,403)	–
Sale of businesses, net of cash and cash equivalents in subsidiaries (note 3)	281	–
Cash and cash equivalents related to transfer of business	–	(4)
Investment in bonds	(27,942)	(25,087)
Investment in mortgage loans	(3,377)	(3,816)
Investment in stocks	(4,285)	(2,510)
Investment in investment properties	(481)	(644)
	(8,202)	(1,539)
Effect of changes in exchange rates on cash and cash equivalents	(100)	(130)
Increase in cash and cash equivalents	3,318	460
Cash and cash equivalents, beginning of year	4,628	4,168
Cash and cash equivalents, end of year	\$ 7,946	\$ 4,628
Supplementary cash flow information		
Interest income received	\$ 4,589	\$ 5,112
Interest paid	286	301
Dividend income received	333	299

Notes to Consolidated Financial Statements

(in Canadian \$ millions except per share amounts)

1. Corporate Information

Great-West Lifeco Inc. (Lifeco or the Company) is a publicly listed company (Toronto Stock Exchange: GWO), incorporated and domiciled in Canada. The registered address of the Company is 100 Osborne Street North, Winnipeg, Manitoba, Canada, R3C 1V3. Lifeco is a member of the Power Corporation of Canada (Power Corporation) group of companies and is a subsidiary of Power Corporation.

Lifeco is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada, the United States and Europe through its operating subsidiaries including The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A) and Putnam Investments, LLC (Putnam).

The consolidated financial statements (financial statements) of the Company as at and for the year ended December 31, 2020 were approved by the Board of Directors on February 10, 2021.

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.

Changes in Accounting Policies

The Company adopted the narrow scope amendments to International Financial Reporting Standards (IFRS) for IFRS 3, *Business Combinations*; IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; and IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*, effective January 1, 2020. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

Basis of Consolidation

The consolidated financial statements of the Company were prepared as at and for the year ended December 31, 2020 with comparative information as at and for the year ended December 31, 2019. 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 and transactions, including income and expenses, profits or losses and dividends, are eliminated on consolidation.

Impact of COVID-19 on Significant Judgments, Estimates and Assumptions

Beginning in January 2020, the outbreak of a virus known as COVID-19 and ensuing global pandemic have resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and significant market uncertainty. In the first quarter of 2020, global financial markets experienced material and rapid declines and significant volatility; however, following March 31, 2020, the markets have experienced recoveries. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic continues to be unknown at this time, as is the efficacy of the government and central bank interventions.

The results of the Company reflect management's judgments regarding the impact of prevailing market conditions related to global credit, equities, investment properties and foreign exchange, as well as prevailing health and mortality experience.

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 credit rating. Given rapid market changes, third party credit rating changes may lag developments in the current environment.

The fair value of portfolio investments (note 6), the valuation of goodwill and other intangible assets (note 10), the valuation of insurance contract liabilities (note 13) and the recoverability of deferred tax asset carrying values (note 26) reflect management's judgment.

Given the uncertainty surrounding the current environment, the actual financial results could differ from the estimates made in preparation of these financial statements.

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 judgment to determine the fair value of assets acquired and liabilities assumed in a business combination.
- 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 6).

Notes to Consolidated Financial Statements

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

- Management uses internal valuation models which utilize judgments and estimates to determine the fair value of equity release mortgages. These valuations are adjusted by applying management judgments and estimates for material changes in projected asset cash flows, and discount rates (note 6).
- 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 9).
- Cash generating units for indefinite life intangible assets and cash generating unit groupings for goodwill 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 10).
- 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 cash generating units for intangible assets relies upon the determination of fair value or value-in-use using valuation methodologies (note 10).
- 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 12 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 13).
- 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 29).
- The operating segments of the Company are the segments reviewed by the Company's Chief Executive Officer to assess performance and allocate resources within the Company. Management applies judgment in the aggregation of the business units into the Company's operating segments (note 31).
- The Company consolidates all subsidiaries and entities which management determines that the Company controls. Control is evaluated on the ability of the Company to direct the activities of the subsidiary or entity to derive variable returns and management uses judgment in determining whether control exists. Judgment 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 whether the Company retains the primary obligation with a client in sub-advisor arrangements. Where the Company retains the primary obligation to the client, 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.

Notes to Consolidated Financial Statements

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. Equity release mortgages are designated as fair value through profit or loss. 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 calculated using the effective interest method and is recorded as net investment income in the Consolidated Statements of Earnings.

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

Investments in mortgages and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the Consolidated Statements of Earnings and included in net investment income.

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 an 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.

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

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.

Equity Release Mortgages – Fair Value Through Profit or Loss

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

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.

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 the 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 recorded in net investment income, therefore, in the event of an impairment, the reduction 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 sponsored funds, 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.

(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, right-of-use assets and miscellaneous other assets, are measured at cost or amortized cost. Other liabilities, which include deferred income reserves, bank overdraft, lease liabilities 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, resulting from a past event, and in management's judgment, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount. The amount recognized for provisions are management's best estimate 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(x).

(g) Disposal Group Classified As Held For Sale

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

Disposal group assets and liabilities classified as held for sale are presented separately on the Company's Consolidated Balance Sheets. Gains and losses from disposal groups held for sale are presented separately in the Company's Consolidated Statements of Earnings.

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

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Balance Sheets. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income in the Consolidated Statements of Earnings. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

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

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

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

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

Derivatives not designated as hedges for accounting purposes

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

Fair value hedges

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

The Company currently uses foreign exchange forward contracts designated as fair value hedges.

Cash flow hedges

For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument is recorded in the same manner as the hedged item while the ineffective portion is recognized immediately in net investment income. Gains and losses that accumulate in other comprehensive income are recorded in net investment income in the same period the hedged item affects net earnings. Gains and losses on cash flow hedges are immediately reclassified from other comprehensive income to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

The Company currently uses interest rate swaps and equity total return swaps designated as cash flow hedges.

Net investment hedges

For net investment hedges, the effective portion of changes in the fair value of the hedging instrument are recorded in other comprehensive income while the ineffective portion is recognized immediately in net investment income. The unrealized foreign exchange gains (losses) on the instruments are recorded within accumulated other comprehensive income and will be reclassified into net earnings when the Company disposes of the foreign operation.

The Company currently uses foreign exchange forward contracts and debt instruments designated as net investment hedges.

(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.

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 7 for funds held by ceding insurers that are managed by the Company. Other funds held by ceding insurers are general obligations of the cedant and serve as collateral for insurance contract liabilities assumed from cedants. Funds withheld assets on these contracts do not have fixed maturity dates, their release generally being dependent on the run-off of the corresponding insurance contract liabilities.

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

Impairment Testing

Goodwill and indefinite life intangible assets, including those resulting from an acquisition during the year, 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 has been allocated to cash generating unit groupings, representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill is tested for impairment by comparing the carrying value of each cash generating unit grouping to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Intangible assets have been allocated to cash generating units, representing the lowest level that the assets are monitored for internal reporting purposes.

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

Intangible assets with an indefinite useful life are reviewed annually to determine if there are indicators of impairment. If indicators of impairment have been identified, a test for impairment is performed and recognized as necessary. Impairment is assessed by comparing the carrying values of the assets to their recoverable amounts. 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 interest 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 income includes fees earned from management of segregated fund assets, proprietary mutual fund assets, record-keeping, fees earned on administrative services only Group health contracts, commissions and fees earned from management services. Fee and other income is recognized on the transfer of services to customers for the amount that reflects the consideration expected to be received in exchange for those services promised.

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, disposals 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 related to investment contracts and service contracts. 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 term of the contract, not to exceed 20 years.

(r) Segregated Funds

Segregated fund assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by policyholders and are presented separately 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 13 for discussion of insurance risk.

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

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

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 8 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 Actuaries of the Company's subsidiary companies are responsible for determining the amount of the liabilities to make appropriate provisions for the Company's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

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

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

(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.

Current Income Tax

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

A provision for tax treatment uncertainties which meet the probable threshold for recognition is measured using either the most likely amount or the expected value, depending upon which method provides the better prediction of the resolution of the uncertainty. The provision for tax uncertainties will be classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date.

Deferred Income Tax

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

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

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

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

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

Notes to Consolidated Financial Statements

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) Repurchase Agreements

The Company accounts for certain forward settling to be announced security transactions as derivatives as the Company does not regularly accept delivery of such securities when issued.

(x) Pension Plans and Other Post-Employment Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for eligible employees and advisors. The Company's 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 defined benefit plans of the Company's subsidiaries, 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's subsidiaries apply 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 defined benefit plans of the Company's subsidiaries, 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's subsidiaries also maintain defined contribution pension plans for eligible employees and advisors. For the defined contribution plans of the Company's subsidiaries, the current service costs are recognized in the Consolidated Statements of Earnings.

(y) Equity

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

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

Accumulated other comprehensive income (loss) represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the unrealized foreign exchange gains (losses) on euro debt designated as a hedge of the net investment of foreign operations, the unrealized gains (losses) on available-for-sale assets, the unrealized gains (losses) on cash flow hedges, the re-measurements on defined benefit pension and other post-employment benefit plans net of tax and the revaluation surplus on transfer to investment properties, where applicable.

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

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

(z) Share-Based Payments

The Company provides share-based compensation to certain employees and Directors of the Company and its subsidiaries.

The Company follows the fair value based method of accounting for the valuation of compensation expense for shares and share options granted to employees under its stock option plans (note 22). This share-based payment expense is recognized in operating and administrative expenses in the Consolidated Statements of Earnings and as an increase to contributed surplus over the vesting period of the granted options. When options are exercised, the proceeds received, along with the amount in contributed surplus, are transferred to share capital.

The Company and certain of its subsidiaries have Deferred Share Unit Plans (DSU Plans) in which the Directors and certain employees of the Company participate. Units issued to Directors under the DSU Plans vest when granted. Units issued to certain employees under the DSU Plans primarily vest over a three year period. The Company recognizes an increase in operating and administrative expenses for the units granted under the DSU Plans. The Company recognizes a liability for units granted under the DSU Plans which is remeasured at each reporting period based on the market value of the Company's common shares.

Certain employees of the Company are entitled to participate in the Performance Share Unit Plan (PSU Plan). Units issued under the PSU Plan vest over a three year period. The Company uses the fair value method to recognize compensation expense for the units granted under the plan over the vesting period, net of related hedges. The liability is remeasured at fair value at each reporting period.

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. The Company's contributions are expensed within operating and administrative expenses as incurred.

(aa) Earnings Per Common Share

Earnings per common share is calculated using net earnings after preferred share dividends and the weighted average number of common shares outstanding. Diluted earnings per share is calculated by adjusting common shareholders' net earnings and the weighted average number of common shares outstanding for the effects of all potential dilutive common shares assuming that all convertible instruments are converted and outstanding options are exercised.

(ab) Leases

Where the Company is the lessee, a right-of-use asset and a lease liability are recognized on the Consolidated Balance Sheets as at the lease commencement date.

Right-of-use assets are initially measured based on the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. Right-of-use assets are included within other assets with the exception of right-of-use assets which meet the definition of investment property which are presented within investment properties and subject to the Company's associated accounting policy. Right-of-use assets presented within other assets are depreciated to the earlier of the useful life of the right-of-use asset or the lease term using the straight-line method. Depreciation expense on right-of-use assets is included within operating and administrative expenses.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company shall use the lessee's incremental borrowing rate. Generally, the Company uses the lessee's incremental borrowing rate as its discount rate. The lease liability is measured at amortized cost using the effective interest method and is included within other liabilities. Interest expense on lease liabilities is included within operating and administrative expenses.

The Company has elected to apply a practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

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.

(ac) 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 and for which discrete financial information is available. The Company's operating segments include Canada, United States, Europe, Capital and Risk Solutions, and Lifeco Corporate. Effective January 1, 2020, as a result of strategic operational changes, the Company has divided the Europe segment into two separate reporting segments – Europe and Capital and Risk Solutions. The realignment resulted in a change to comparative figures within these operating segments (note 31). The Company's other reportable segments – Canada, United States and Lifeco Corporate – are unchanged. The Canada segment comprises the Individual Customer and Group Customer business units. GWL&A (financial services) and Putnam (asset management) are included in the United States segment. The Europe segment comprises United Kingdom, Ireland, and Germany. Reinsurance, which had previously been reported as part of the Europe segment, is reported in the Capital and Risk Solutions segment. The Lifeco Corporate segment represents activities and transactions that are not directly attributable to the measurement of the operating segments of the Company.

Notes to Consolidated Financial Statements

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

(ad) Future Accounting Policies

Standard	Summary of Future Changes
IFRS 17 – <i>Insurance Contracts</i>	In May 2017, the IASB issued IFRS 17, <i>Insurance Contracts</i> (IFRS 17), which will replace IFRS 4, <i>Insurance Contracts</i>. On June 26, 2019 the IASB issued an exposure draft covering targeted amendments to the IFRS 17 standard, including a proposed amendment to defer the effective date of the standard. In June 2020, the IASB finalized the amendments to IFRS 17, which included confirmation of the effective date for the standard of January 1, 2023. In addition, the IASB confirmed the extension to January 1, 2023 of the exemption for insurers to apply the financial instruments standard, IFRS 9, <i>Financial Instruments</i> (IFRS 9), keeping the alignment of the effective dates for IFRS 9 and IFRS 17. The adoption of IFRS 17 is a significant initiative for the Company supported by a formal governance framework and project plan, for which substantial resources are being dedicated. The Company has assembled a project team that is working on implementation which involves preparing the financial reporting systems and processes for reporting under IFRS 17, policy development and operational and change management. The project team is also monitoring developments from the IASB and various industry groups that the Company has representation on. The Company continues to make progress in implementing its project plan, with key policy decisions well advanced as well as significant progress on the technology solution. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces three new measurement models depending on the nature of the insurance contracts: the General Measurement Model, the Premium Allocation Approach and the Variable Fee Approach. For the General Measurement Model and Variable Fee Approach, IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as the total of: (a) the fulfilment cash flows – the current estimates of amounts that a company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin – the future profit for providing insurance coverage. Under IFRS 17, the discount rate used to reflect the time value of money in the fulfilment cash flows must be based on the characteristics of the liability. This is a significant change from IFRS 4 and the Canadian Asset Liability Method, where the discount rate was based on the yield curves of the assets supporting those liabilities (refer to the Company's significant accounting policies in note 2 of these financial statements). The future profit for providing insurance coverage (including impacts of new business) is reflected in the initial recognition of insurance contract liabilities and then recognized into profit or loss over time as the insurance services are 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. As a result of the new valuation methodologies required under IFRS 17, the Company expects its insurance contract liabilities to increase upon adoption. IFRS 17 will affect how the Company accounts for its insurance contracts and how it reports financial performance in the Consolidated Statements of Earnings, in particular the timing of earnings recognition for insurance contracts. The adoption of IFRS 17 will also have a significant impact on how insurance contract results are presented and disclosed in the consolidated financial statements and on regulatory and tax regimes that are dependent upon IFRS accounting values. The Company is also actively monitoring potential impacts on regulatory capital and the associated ratios and disclosures. The Company continues to assess all these impacts through its global implementation plan.
IFRS 9 – <i>Financial Instruments</i>	In July 2014, the IASB issued a final version of IFRS 9, <i>Financial Instruments</i> to replace IAS 39, <i>Financial Instruments: Recognition and Measurement</i>. 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, <i>Insurance Contracts</i> (IFRS 4). The amendment "Applying IFRS 9, <i>Financial Instruments</i> with IFRS 4, <i>Insurance Contracts</i>" provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9 standard before the new proposed insurance contract standard is effective. The two options are as follows: • <i>Deferral Approach</i> – provides the option to defer implementation of IFRS 9 until the effective date of the new insurance contract standard; or • <i>Overlay Approach</i> – provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Company qualifies for the amendment and is applying the deferral approach to allow adoption of both IFRS 9 and IFRS 17 simultaneously. The disclosure for the measurement and classification of the Company's portfolio investments provides most of the information required by IFRS 9. The Company continues to evaluate the impact of the adoption of this standard with the adoption of IFRS 17.
IAS 37 – <i>Provisions, Contingent Liabilities, and Contingent Assets</i>	In May 2020, the IASB issued amendments to IAS 37, <i>Provisions, Contingent Liabilities, and Contingent Assets</i>. The amendments specify which costs should be included when assessing whether a contract will be loss-making. These amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The Company is evaluating the impact of the adoption of these amendments.
<i>Annual Improvements 2018-2020 Cycle</i>	In May 2020, the IASB issued <i>Annual Improvements 2018-2020 Cycle</i> as part of its ongoing process to efficiently deal with non-urgent narrow scope amendments to IFRS. Two amendments were included in this issue that are applicable for the Company relating to IFRS 9, <i>Financial Instruments</i> and IFRS 16, <i>Leases</i>. The amendments are effective January 1, 2022. The Company is evaluating the impact of the adoption of these amendments.
IFRS 16 – <i>Leases</i>	In May 2020, the IASB published amendments to IFRS 16, <i>Leases</i> amending the standard to provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendments are effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted. The Company does not anticipate a significant impact on its consolidated financial statements as a result of this amendment.

Notes to Consolidated Financial Statements

Standard	Summary of Future Changes
IFRS 9 – <i>Financial Instruments</i> , IAS 39 – <i>Financial Instruments: Recognition and Measurement</i> , IFRS 7 – <i>Financial Instruments: Disclosures</i> , IFRS 4 – <i>Insurance Contracts</i> and IFRS 16 – <i>Leases</i>	In August 2020, the IASB published <i>Interest Rate Benchmark Reform – Phase 2</i> which issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments provide relief from remeasurement impacts on financial instruments, and discontinuation of hedge relationships arising from reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted. The Company is monitoring the interest rate benchmark reform process and has established an internal program to fully transition to alternative reference rates by the end of 2021. The transition to alternative reference rates is not expected to impact the Company's risk management strategy. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

3. Business Acquisitions and Other Transactions

(a) Acquisition of MassMutual Retirement Services Business

On December 31, 2020, GWL&A completed the purchase, via indemnity reinsurance, of the retirement services business of Massachusetts Mutual Life Insurance Company (MassMutual). The acquisition strengthens the Company's position as a leader in the U.S. retirement market. The Company anticipates realizing cost synergies through the migration of MassMutual's retirement services business onto the Company's recordkeeping platform. The Company assumed the economics and risks associated with the reinsured business.

The Company paid a ceding commission of \$2,937 (U.S. \$2,312) net of working capital adjustments to MassMutual, and funded the transaction with existing cash, short-term debt and \$1,973 (U.S. \$1,500) in long-term debt issued on September 17, 2020 (note 15). The assets acquired, liabilities assumed and ceding commission paid at the closing of this transaction are subject to future adjustments.

The initial amounts assigned to the assets acquired, goodwill, and liabilities assumed and reported as at December 31, 2020 are as follows:

Assets acquired and goodwill

Cash and cash equivalents	\$ 2,594
Bonds	12,006
Mortgage Loans	2,326
Funds held by ceding insurers	9,928
Goodwill	2,827
Other assets	231
Premiums in the course of collection, accounts and interest receivable	172
Deferred tax assets	300
Investments on account of segregated fund policyholders	84,785

Total assets acquired and goodwill **\$ 115,169**

Liabilities assumed

Insurance contract liabilities	\$ 22,316
Investment contract liabilities	4,984
Accounts payable	31
Other liabilities	116
Investment and insurance contracts on account of segregated fund policyholders	84,785

Total liabilities assumed **\$ 112,232**

As at December 31, 2020, the accounting for the acquisition is not finalized pending completion of a comprehensive valuation of the net assets acquired. The financial statements at December 31, 2020 reflect management's current best estimate of the purchase price allocation. Final valuation of the assets acquired and liabilities assumed and the completion of the purchase price allocation are expected to occur during 2021. As at December 31, 2020, provisional amounts for intangible assets have not been separately identified and valued within the assets of the purchase price allocation pending completion of the valuation exercise.

As a result, the excess of the purchase price over the fair value of net assets acquired, representing goodwill of \$2,827 (U.S. \$2,226) on the date of acquisition, will be adjusted in future periods.

The goodwill represents the excess of the purchase price over the fair value of the net assets, representing the synergies or future economic benefits arising from other assets acquired that are not individually identified and separately recognized in the acquisition of the MassMutual retirement services business. These synergies represent meaningful expense and revenue opportunities which are expected to be accretive to earnings.

During the year ended December 31, 2020, the Company incurred acquisition expenses of \$66 (U.S. \$51) which are included within operating and administrative expenses in the Consolidated Statements of Earnings.

Notes to Consolidated Financial Statements

3. Business Acquisitions and Other Transactions (cont'd)

As the acquisition occurred on December 31, 2020, the reinsured business did not contribute to 2020 earnings.

Supplemental pro-forma revenue and net earnings for the combined entity, as though the acquisition date for this business combination had been as of the beginning of the annual reporting period, has not been included as it is impracticable as MassMutual had a different financial reporting basis than the Company.

(b) Acquisition of Personal Capital Corporation

On August 17, 2020, GWL&A completed the acquisition of 100% of the equity of Personal Capital Corporation (Personal Capital), a hybrid wealth manager that combines a digital experience with personalized advice delivered by human advisors. Prior to the completion of the acquisition, IGM, an affiliated company controlled by Power Corporation, held a 24.8% interest in Personal Capital (approximately 21.7% after giving effect to dilution). The transaction resulted from an auction process conducted by Personal Capital and shareholders other than IGM (note 25).

The amounts assigned to the assets acquired, goodwill, and liabilities assumed on August 17, 2020, reported as at December 31, 2020 are as follows:

Assets acquired and goodwill	
Cash and cash equivalents	\$ 36
Goodwill	718
Intangible assets	294
Deferred tax assets	43
Other assets	40
Total assets acquired and goodwill	\$ 1,131
Liabilities assumed and contingent consideration	
Other liabilities	\$ 33
Contingent consideration	26
Total liabilities assumed and contingent consideration	\$ 59

During the fourth quarter of 2020, the Company completed its comprehensive evaluation of the fair value of the net assets acquired from Personal Capital and the purchase price allocation. As a result, initial goodwill of \$954 recognized upon the acquisition of Personal Capital on August 17, 2020 and presented in the September 30, 2020 consolidated interim unaudited financial statements has been adjusted in the fourth quarter of 2020. Adjustments were made to the provisional amounts disclosed in the September 30, 2020 consolidated interim unaudited financial statements primarily for the recognition and measurement of intangible assets, contingent consideration and adjustments to the deferred tax assets acquired.

The following provides the change in carrying value from September 30, 2020 to December 31, 2020 of the goodwill on acquisition:

Goodwill previously reported at September 30, 2020	\$ 954
Recognition and measurement of intangible assets	(294)
Recognition and measurement of contingent consideration	26
Adjustment to deferred tax assets and other adjustments	32
Goodwill reported at December 31, 2020	\$ 718

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

Intangible assets include customer relationships, brand name and internally developed software (note 10).

The purchase consideration was adjusted from \$1,097 to \$1,072 (U.S. \$825 to U.S. \$813). The contingent consideration earn-out value of \$26 (U.S. \$20) represents management's best estimate, which could increase up to \$231 (U.S. \$175) based on the achievement of growth in assets under management metrics defined in the Merger Agreement, payable following measurements through December 31, 2021 and December 31, 2022. Future changes in the fair value of the contingent consideration measured in accordance with the Merger Agreement will be recognized in the Consolidated Statements of Earnings.

Supplemental pro-forma revenue and net earnings for the combined entity, as though the acquisition date for this business combination had been as of the beginning of the annual reporting period, have not been included as the results were not significant to the results of the Company.

During the year ended December 31, 2020, the Company incurred transaction expenses of \$29 (U.S. \$22) which are included within operating and administrative expenses in the Consolidated Statements of Earnings.

(c) U.S. Individual Life Insurance and Annuity Business Reinsurance Agreement

On January 24, 2019, GWL&A announced that it had entered into an agreement with Protective Life Insurance Company (Protective Life) to sell, via indemnity reinsurance, substantially all of its individual life insurance and annuity business in its United States segment. The transaction was completed on June 1, 2019.

The liabilities transferred and ceding commission received at the closing of this transaction were subject to future adjustments. In October 2019, Protective Life provided the Company with its listing of proposed adjustments with respect to the liabilities transferred, which the Company formally objected to in December 2019. In November 2020, the parties reached resolution and settled cash for adjustments which did not have a material effect on the consolidated financial position of the Company and no further adjustments are expected.

(d) Sale of Irish Progressive Services International Limited

On August 4, 2020, Irish Life Group Limited (Irish Life), an indirect wholly-owned subsidiary of the Company, completed the sale of Irish Progressive Services International Limited (IPSI), a wholly-owned subsidiary whose principal activity is the provision of outsourced administration services for life assurance companies, to a member of the FNZ group of companies. The Company recognized a net gain of \$94 after-tax in the Consolidated Statements of Earnings that includes a curtailment gain and other restructuring and transaction costs. The carrying value and earnings of the business are immaterial to the Company.

(e) Sale of GLC Asset Management Group Ltd.

During the fourth quarter of 2020, the Company completed the sale of GLC Asset Management Group Ltd. (GLC) to Mackenzie Financial Corporation (Mackenzie), an affiliate of the Company. GLC was a wholly-owned subsidiary of Canada Life whose principal activity is the provision of investment management services to Canada Life.

The Company recorded a gain on disposal of \$143 after-tax, net of restructuring and other one-time costs of \$16 after-tax (\$22 pre-tax) (note 4). The carrying value and earnings of the business are immaterial to the Company. This is a related party transaction (note 25), and the board of directors of each of the Company and Canada Life established a committee of directors independent of management and Mackenzie to assess, review and consider the proposed terms of the transaction and to make recommendations regarding the transaction to its board of directors.

(f) Northleaf Capital Partners Ltd.

On October 29, 2020, the Company and Mackenzie jointly acquired a non-controlling interest in Northleaf Capital Partners Ltd. (Northleaf), a premier global private equity, private credit and infrastructure fund manager, through an acquisition vehicle 80% owned by Mackenzie and 20% owned by Lifeco. The Company and Mackenzie acquired a 49.9% non-controlling interest and a 70% economic interest in Northleaf for consideration that includes a payment on closing of \$245 as well as contingent consideration at the end of five years. The Company has also committed as part of the transaction to make a minimum investment through 2022 in Northleaf's product offerings. Mackenzie and Lifeco have an obligation and right to purchase an additional equity and voting interest in the firm commencing in approximately five years and extending into future periods. The revenue and net earnings of Northleaf are not expected to be significant to the results of the Company.

4. Restructuring and Integration Expenses**(a) Canada Restructuring**

In addition to the sale of GLC by the Company (note 3), two initiatives impacting the Company's operations were announced in the fourth quarter of 2020:

1. The Company announced changes to its Canadian distribution strategy and vision for advisor-based distribution, and
2. IGM has notified the Company that it intends to terminate its long-term technology infrastructure related sharing agreement in the first quarter of 2021.

These initiatives, together with the sale of GLC will result in staff reductions, exit costs for certain facilities lease agreements and decommit activities related to technology and other assets.

As a result, the Company has recorded a restructuring provision of \$92, which includes the restructuring costs associated with the GLC disposition (\$68 in the shareholder account and \$24 in the participating account). The after-tax impact of the restructuring provision is \$68 (\$50 in the shareholder account and \$18 in the participating account). Changes relating to these initiatives are expected to be implemented by the end of 2022 and are not expected to have a significant impact on the Company's financial results.

At December 31, 2020, the Company has a restructuring provision of \$86 remaining in other liabilities. The Company expects to pay out substantially all of these amounts by December 31, 2022.

	2020
Balance, beginning of year	\$ —
Restructuring expenses	92
Amounts used	(6)
Balance, end of year	\$ 86

(b) GWL&A Restructuring

Upon acquisition of MassMutual, GWL&A recorded restructuring expenses of \$42 pre-tax (\$33 after-tax) associated with the acquisition of the MassMutual retirement services business. These expenses are recorded in restructuring and integration expenses in the Consolidated Statement of Earnings and include a restructuring provision of \$37 and integration costs of \$5.

This restructuring is primarily attributed to the reduction of MassMutual staff not retained. In addition, expenses were incurred for the early termination of certain MassMutual vendor contracts. The Company expects to pay out a significant portion of these amounts during 2021. The Company expects to incur further restructuring and integration expenses associated with the acquisition over the following 18 months.

At December 31, 2020, the Company has a restructuring provision of \$37 remaining in other liabilities.

(c) United Kingdom Business Transformation

In 2018, the Company recorded a restructuring provision in the European segment in respect of activities aimed at achieving planned expense reductions and an organizational realignment. Despite delays due to COVID-19, the Company had achieved most of the planned benefits by December 31, 2020 and the restructuring has been substantially completed. At December 31, 2020, the Company has a restructuring provision of \$23 (\$39 at December 31, 2019) remaining in other liabilities.

(d) Putnam Restructuring

In 2019, Putnam recorded a restructuring provision of \$52 pre-tax (\$36 after-tax), which is recorded in restructuring expenses in the Consolidated Statements of Earnings. This restructuring is in respect of expense reductions and a realignment of its resources to best position itself for current and future opportunities. The expense reductions will be achieved through a reduction in staff, consolidation of certain mutual funds, digital technology modernization and facilities downsizing.

The Putnam restructuring activities are substantially completed. At December 31, 2020, the Company has a restructuring provision of \$4 (\$37 at December 31, 2019) remaining in other liabilities.

Notes to Consolidated Financial Statements

5. Cash and Cash Equivalents

Cash and cash equivalents include amounts held at the Lifeco holding company level and amounts held in Lifeco's consolidated subsidiary companies.

	2020	2019
Cash	\$ 2,978	\$ 2,860
Short-term deposits	4,968	1,768
Total	\$ 7,946	\$ 4,628

At December 31, 2020, cash of \$508 was restricted for use by the Company (\$574 at December 31, 2019) 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.

6. Portfolio Investments

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

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss ⁽¹⁾	\$ 100,839	\$ 100,839	\$ 84,229	\$ 84,229
Classified fair value through profit or loss ⁽¹⁾	2,053	2,053	1,717	1,717
Available-for-sale	11,352	11,352	11,710	11,710
Loans and receivables	23,348	26,545	17,372	19,344
	137,592	140,789	115,028	117,000
Mortgage loans				
Residential				
Designated fair value through profit or loss ⁽¹⁾	2,020	2,020	1,314	1,314
Loans and receivables	9,416	10,024	9,073	9,347
	11,436	12,044	10,387	10,661
Commercial	16,367	17,589	13,881	14,485
	27,803	29,633	24,268	25,146
Stocks				
Designated fair value through profit or loss ⁽¹⁾	10,335	10,335	9,752	9,752
Available-for-sale	20	20	16	16
Available-for-sale, at cost ⁽²⁾	163	163	189	189
Equity method	482	445	418	410
	11,000	10,963	10,375	10,367
Investment properties	6,270	6,270	5,887	5,887
Total	\$ 182,665	\$ 187,655	\$ 155,558	\$ 158,400

(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.

Notes to Consolidated Financial Statements

6. Portfolio Investments (cont'd)

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

	2020			
	Term to maturity			Total
	1 year or less	Over 1 year to 5 years	Over 5 years	
Bonds ⁽¹⁾	\$ 10,690	\$ 28,312	\$ 98,555	\$ 137,557
Mortgage loans ⁽²⁾	1,727	9,523	16,530	27,780
Total	\$ 12,417	\$ 37,835	\$ 115,085	\$ 165,337

	2019			
	Term to maturity			Total
	1 year or less	Over 1 year to 5 years	Over 5 years	
Bonds ⁽¹⁾	\$ 12,142	\$ 25,989	\$ 76,860	\$ 114,991
Mortgage loans ⁽²⁾	941	8,180	15,118	24,239
Total	\$ 13,083	\$ 34,169	\$ 91,978	\$ 139,230

(1) Excludes the carrying value of impaired bonds as the ultimate timing of collectability is uncertain.

(2) Excludes the carrying value of impaired mortgage loans as the ultimate timing of collectability is uncertain. Mortgage loans include equity release mortgages which do not have a fixed redemption date. The maturity profile of the portfolio has therefore been estimated based on previous redemption experience.

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

The majority of the Company's equity method investments relate to the Company's investment, held through Canada Life, in an affiliated company, IGM, a member of the Power Corporation group of companies, over which it exerts significant influence but does not control. The Company's proportionate share of IGM's earnings is recorded in net investment income in the Consolidated Statements of Earnings. The Company owns 9,200,518 shares of IGM at December 31, 2020 (9,200,505 at December 31, 2019) representing a 3.86% ownership interest (3.86% at December 31, 2019). The Company uses the equity method to account for its investment in IGM as it exercises significant influence. Significant influence arises from several factors, including, but not limited to the following: common control of the Company and IGM by Power Corporation, shared representation on the Boards of Directors of the Company and IGM, interchange of managerial personnel, and certain shared strategic alliances, significant intercompany transactions and service agreements that influence the financial and operating policies of both companies.

	2020	2019
Carrying value, beginning of year	\$ 350	\$ 346
Equity method share of IGM net earnings	25	25
Dividends received	(21)	(21)
Carrying value, end of year	\$ 354	\$ 350
Share of equity, end of year	\$ 190	\$ 171
Fair value, end of year	\$ 317	\$ 342

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

IGM's financial information as at December 31, 2020 can be obtained in its publicly available information.

At December 31, 2020, IGM owned 37,337,133 (37,337,133 at December 31, 2019) common shares of the Company.

Notes to Consolidated Financial Statements

(d) Included in portfolio investments are the following:

(i) Carrying amount of impaired investments

	2020	2019
Impaired amounts by classification		
Fair value through profit or loss	\$ 20	\$ 21
Available-for-sale	17	16
Loans and receivables	23	29
Total	\$ 60	\$ 66

The carrying amount of impaired investments includes \$35 bonds, \$23 mortgage loans and \$2 stocks at December 31, 2020 (\$37 bonds and \$29 mortgage loans at December 31, 2019). The above carrying values for loans and receivables are net of allowances of \$57 at December 31, 2020 and \$51 at December 31, 2019.

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

	2020			2019		
	Bonds	Mortgage loans	Total	Bonds	Mortgage loans	Total
Balance, beginning of year	\$ –	\$ 51	\$ 51	\$ –	\$ 20	\$ 20
Net provision for credit losses – in year	–	16	16	–	50	50
Write-offs, net of recoveries	–	(10)	(10)	–	(19)	(19)
Balance, end of year	\$ –	\$ 57	\$ 57	\$ –	\$ 51	\$ 51

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

(e) Net investment income comprises the following:

	2020					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 3,589	\$ 877	\$ 357	\$ 397	\$ 571	\$ 5,791
Net realized gains (losses)						
Available-for-sale	146	–	(5)	–	–	141
Other classifications ⁽¹⁾	33	47	245	–	–	325
Net allowances for credit losses on loans and receivables	–	(16)	–	–	–	(16)
Other income (expenses)	–	–	–	(127)	(151)	(278)
	3,768	908	597	270	420	5,963
Changes in fair value through profit or loss assets:						
Classified fair value through profit or loss	78	–	–	–	–	78
Designated fair value through profit or loss	5,154	157	77	–	307	5,695
Recorded at fair value through profit or loss	–	–	–	(74)	–	(74)
	5,232	157	77	(74)	307	5,699
Total	\$ 9,000	\$ 1,065	\$ 674	\$ 196	\$ 727	\$ 11,662

(1) Includes the realized gains on the sale of the shares of GLC and IPSI (note 3).

Notes to Consolidated Financial Statements

6. Portfolio Investments (cont'd)

	2019					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 3,948	\$ 906	\$ 301	\$ 374	\$ 553	\$ 6,082
Net realized gains						
Available-for-sale	57	—	19	—	—	76
Other classifications	164	172	—	—	—	336
Net allowances for credit losses on loans and receivables	—	(50)	—	—	—	(50)
Other income (expenses)	—	—	—	(117)	(166)	(283)
	4,169	1,028	320	257	387	6,161
Changes in fair value through profit or loss assets:						
Classified fair value through profit or loss	45	—	—	—	—	45
Designated fair value through profit or loss	5,740	107	1,405	—	(388)	6,864
Recorded at fair value through profit or loss	—	—	—	37	—	37
	5,785	107	1,405	37	(388)	6,946
Total	\$ 9,954	\$ 1,135	\$ 1,725	\$ 294	\$ (1)	\$ 13,107

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 IGM. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

(f) 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. Included in the collateral deposited with the Company's lending agent is cash collateral of \$267 at December 31, 2020 (\$398 at December 31, 2019). 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, 2020, the Company had loaned securities (which are included in invested assets) with a fair value of \$8,921 (\$7,023 at December 31, 2019).

Notes to Consolidated Financial Statements

7. Funds Held by Ceding Insurers

At December 31, 2020, the Company had amounts on deposit of \$18,383 (\$8,714 at December 31, 2019) 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.

As part of the MassMutual acquisition (note 3), GWL&A assumed, by way of indemnity reinsurance, a block of retirement plan service contracts from a previous reinsurance agreement held by MassMutual. Under the agreement, GWL&A is required to put amounts in trust with MassMutual and GWL&A retains the credit risk on the portfolio of assets included in the amounts on deposit.

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:

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	\$ 245	\$ 245	\$ 216	\$ 216
Bonds	15,365	15,365	6,445	6,445
Mortgages	578	578	—	—
Other assets	137	137	80	80
Total	\$ 16,325	\$ 16,325	\$ 6,741	\$ 6,741
Supporting:				
Reinsurance liabilities	\$ 16,094	\$ 16,094	\$ 6,537	\$ 6,537
Surplus	231	231	204	204
Total	\$ 16,325	\$ 16,325	\$ 6,741	\$ 6,741

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

	2020	2019
Bonds issued or guaranteed by:		
Treasuries	\$ 843	\$ 624
Government related	1,760	1,275
Agency securitized	287	—
Non-agency securitized	1,870	763
Financials	2,989	1,412
Communications	503	154
Consumer products	2,141	438
Energy	589	176
Industrials	1,420	234
Technology	344	72
Transportation	466	170
Utilities	2,101	1,127
Total long-term bonds	15,313	6,445
Short-term bonds	52	—
Total	\$ 15,365	\$ 6,445

(c) The following provides details of the carrying value of mortgages included in the funds on deposit by property type:

	2020	2019
Multi-family residential	\$ 122	\$ —
Commercial	456	—
Total	\$ 578	\$ —

(d) Asset quality

Bond Portfolio By Credit Rating

	2020	2019
AAA	\$ 1,508	\$ 601
AA	3,848	2,670
A	5,597	2,264
BBB	4,165	822
BB and lower	247	88
Total	\$ 15,365	\$ 6,445

8. 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.

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

- Investment policies aim to minimize undue concentration within issuers, connected companies, industries or individual geographies.
- Investment limits specify minimum and maximum limits for each asset class.
- Identification of credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness. Internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies.
- Portfolios are monitored continuously, and reviewed regularly with the Risk Committee and the Investment Committee of the Board of Directors.
- 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 manages derivative credit risk by including derivative exposure to aggregate credit exposures measured against rating based obligor limits and through collateral arrangements where possible.
- Counterparties providing reinsurance to 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.

(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.

	2020	2019
Cash and cash equivalents	\$ 7,946	\$ 4,628
Bonds		
Fair value through profit or loss	102,892	85,946
Available-for-sale	11,352	11,710
Loans and receivables	23,348	17,372
Mortgage loans	27,803	24,268
Loans to policyholders	8,387	8,601
Funds held by ceding insurers ⁽¹⁾	18,383	8,714
Reinsurance assets	22,121	20,707
Interest due and accrued	1,320	1,196
Accounts receivable	3,080	3,256
Premiums in course of collection	1,702	1,429
Trading account assets	713	1,092
Finance leases receivable	404	405
Other assets ⁽²⁾	965	444
Derivative assets	829	451
Total	\$ 231,245	\$ 190,219

(1) Includes \$16,325 (\$6,741 at December 31, 2019) of funds held by ceding insurers where the Company retains the credit risk of the assets supporting the liabilities ceded (note 7).

(2) Includes items such as current income taxes receivable and miscellaneous other assets of the Company (note 12).

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 \$211 of collateral received from counterparties as at December 31, 2020 (\$156 at December 31, 2019) relating to derivative assets.

As at December 31, 2020, \$15,690 of the \$22,121 of reinsurance assets are ceded to Protective (\$14,848 of \$20,707 at December 31, 2019). This concentration risk is mitigated by funds held in trust of \$16,389 as at December 31, 2020 (\$15,948 at December 31, 2019).

Notes to Consolidated Financial Statements

(ii) Concentration of Credit Risk

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

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

	2020				
	Canada	United States	Europe	Capital and Risk Solutions	Total
Bonds issued or guaranteed by:					
Treasuries	\$ 586	\$ 272	\$ 10,282	\$ 1,372	\$ 12,512
Government related	20,555	2,308	9,287	316	32,466
Agency securitized	178	926	—	17	1,121
Non-agency securitized	2,057	6,550	1,402	136	10,145
Financials	4,361	6,022	5,880	572	16,835
Communications	1,142	1,338	1,124	98	3,702
Consumer products	4,197	6,127	2,816	762	13,902
Energy	2,453	2,450	675	270	5,848
Industrials	2,022	4,585	1,329	406	8,342
Technology	557	1,324	299	263	2,443
Transportation	3,409	1,394	977	154	5,934
Utilities	10,091	4,485	4,811	553	19,940
Total long-term bonds	51,608	37,781	38,882	4,919	133,190
Short-term bonds	2,332	557	1,066	447	4,402
Total	\$ 53,940	\$ 38,338	\$ 39,948	\$ 5,366	\$ 137,592
	2019				
	Canada	United States	Europe ⁽¹⁾	Capital and Risk Solutions ⁽¹⁾	Total
Bonds issued or guaranteed by:					
Treasuries	\$ 479	\$ 72	\$ 10,118	\$ 1,068	\$ 11,737
Government related	19,307	1,795	8,521	293	29,916
Agency securitized	110	1,111	—	10	1,231
Non-agency securitized	2,159	4,664	1,573	165	8,561
Financials	4,119	3,011	5,786	560	13,476
Communications	888	617	991	129	2,625
Consumer products	3,761	2,738	2,649	855	10,003
Energy	2,173	1,071	640	266	4,150
Industrials	1,764	2,057	1,281	454	5,556
Technology	552	727	302	265	1,846
Transportation	2,897	546	1,017	180	4,640
Utilities	9,145	2,377	4,426	527	16,475
Total long-term bonds	47,354	20,786	37,304	4,772	110,216
Short-term bonds	2,680	720	1,049	363	4,812
Total	\$ 50,034	\$ 21,506	\$ 38,353	\$ 5,135	\$ 115,028

(1) See comparative figures (note 32).

Notes to Consolidated Financial Statements

8. Financial Instruments Risk Management (cont'd)

The following provides details of the carrying value of mortgage loans by operating segment:

	2020				
	Canada	United States	Europe	Capital and Risk Solutions	Total
Single family residential	\$ 2,063	\$ –	\$ –	\$ –	\$ 2,063
Multi-family residential	4,331	2,297	684	41	7,353
Equity release	759	–	1,261	–	2,020
Commercial	8,883	3,660	3,801	23	16,367
Total	\$ 16,036	\$ 5,957	\$ 5,746	\$ 64	\$ 27,803

	2019				
	Canada	United States	Europe ⁽¹⁾	Capital and Risk Solutions ⁽¹⁾	Total
Single family residential	\$ 2,069	\$ –	\$ –	\$ –	\$ 2,069
Multi-family residential	4,496	1,798	661	49	7,004
Equity release	374	–	940	–	1,314
Commercial	7,871	2,198	3,787	25	13,881
Total	\$ 14,810	\$ 3,996	\$ 5,388	\$ 74	\$ 24,268

(1) See comparative figures (note 32).

(iii) Asset Quality

Bond Portfolio By Credit Rating

	2020	2019
AAA	\$ 21,820	\$ 22,083
AA	35,530	33,272
A	45,673	37,233
BBB	33,382	21,922
BB and lower	1,187	518
Total	\$ 137,592	\$ 115,028

Derivative Portfolio By Credit Rating

	2020	2019
Over-the-counter contracts (counterparty ratings):		
AA	\$ 424	\$ 271
A	369	146
BBB	35	34
Exchange-traded	1	–
Total	\$ 829	\$ 451

(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:

	2020	2019
Less than 30 days	\$ 17	\$ 28
30 – 90 days	28	1
Greater than 90 days	10	4
Total	\$ 55	\$ 33

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

	2020	2019
Participating	\$ 1,183	\$ 1,175
Non-participating	2,185	1,400
Total	\$ 3,368	\$ 2,575

(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 48% (approximately 57% in 2019) of insurance and investment contract liabilities are non-cashable prior to maturity or claim, with a further 26% approximately (14% in 2019) of insurance and investment contract liabilities subject to fair value adjustments under certain conditions.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. At December 31, 2020, the Company maintains \$350 of liquidity at the Lifeco level through committed lines of credit with Canadian chartered banks. As well, the Company maintains a \$150 liquidity facility at Canada Life, a U.S. \$500 revolving credit agreement at Great-West Lifeco U.S. LLC, a U.S. \$500 revolving credit agreement with a syndicate of banks for use by Putnam, and a U.S. \$50 line of credit at GWL&A.

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

	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
Debentures and other debt instruments	\$ 8,639	\$ —	\$ —	\$ 775	\$ —	\$ 635	\$ 7,229
Capital trust securities ⁽¹⁾	150	—	—	—	—	—	150
Purchase obligations	261	113	65	23	13	10	37
Pension contributions	316	316	—	—	—	—	—
Total	\$ 9,366	\$ 429	\$ 65	\$ 798	\$ 13	\$ 645	\$ 7,416

(1) Payments due have not been reduced to reflect that the Company held capital trust securities of \$37 principal amount (\$55 carrying value).

(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.

8. Financial Instruments Risk Management (cont'd)

(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.

(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 0.11% in 2020 (0.10% in 2019). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries prescribed scenarios.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact the Company's range of scenarios covered.

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

- At December 31, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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.

The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries prescribed scenarios. The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually.

An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions.

If sustained however, the parallel shift could impact the Company's range of scenarios covered. The following table provides information on the impact to the value of liabilities net of changes in the value of assets supporting liabilities 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. For some products, interest rate risk is modelled stochastically in determining the insurance contract liabilities, and for those products, the sensitivities reflect the estimated impact of an immediate 1% increase and 1% decrease in interest rates on the liability.

The sensitivities in the table include the impact of a parallel shift in ultimate interest rates outlined in actuarial standards.

	2020		2019	
	1% increase	1% decrease	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (289)	\$ 1,185	\$ (230)	\$ 811
Increase (decrease) in net earnings	\$ 224	\$ (920)	\$ 175	\$ (619)

As at December 31, 2020, the accounting for the acquisition of MassMutual is not finalized pending completion of a comprehensive valuation of the net assets acquired (note 3). As such, the impact of the acquired business included in the sensitivities above reflects management's current best estimate of the sensitivities.

(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 on lifetime Guaranteed Minimum Withdrawal Benefits have been mitigated through a hedging program using equity futures, currency forwards, and interest rate derivatives.

Some insurance and investment contract liabilities with long-tail cash-flows are supported by publicly traded common stocks and investments in other non-fixed income assets, primarily comprised of investment properties, real estate funds, private stocks, and equity release mortgages. The value of the liabilities may fluctuate with changes in the value of the supporting assets. The liabilities for other products such as segregated fund products with guarantees also fluctuate with equity values.

There may be additional market and liability impacts as a result of changes in the value of publicly traded common stocks and other non-fixed income assets that will cause the liabilities to fluctuate differently than the equity values. This means that there is a greater impact on net earnings from larger falls in equity values, relative to the change in equity values. Falls in equity values beyond those shown in the table below would have a greater impact on net earnings, relative to the change in equity values.

Notes to Consolidated Financial Statements

8. Financial Instruments Risk Management (cont'd)

The following table provides information on the expected impacts of an immediate 10% or 20% increase or decrease in the value of publicly traded common stocks on insurance and investment contract liabilities and on the shareholders' net earnings of the Company. The expected impacts take into account the expected changes in the value of assets supporting liabilities and hedge assets.

	2020				2019			
	20% increase	10% increase	10% decrease	20% decrease	20% increase	10% increase	10% decrease	20% decrease
Change in publicly traded common stock values								
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (34)	\$ (18)	\$ 62	\$ 264	\$ (63)	\$ (33)	\$ 45	\$ 223
Increase (decrease) in net earnings	\$ 28	\$ 15	\$ (51)	\$ (208)	\$ 54	\$ 27	\$ (39)	\$ (182)

The following table provides information on the expected impacts of an immediate 5% or 10% increase or decrease in the value of other non-fixed income assets on insurance and investment contract liabilities and on the shareholders' net earnings of the Company. The expected impacts take into account the expected changes in the value of assets supporting liabilities.

	2020				2019			
	10% increase	5% increase	5% decrease	10% decrease	10% increase	5% increase	5% decrease	10% decrease
Change in other non-fixed income asset values								
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (41)	\$ (8)	\$ 88	\$ 138	\$ (74)	\$ (32)	\$ 35	\$ 117
Increase (decrease) in net earnings	\$ 34	\$ 6	\$ (69)	\$ (108)	\$ 60	\$ 25	\$ (28)	\$ (90)

The Canadian Institute of Actuaries Standards of Practice for the valuation of insurance contract liabilities establish limits on the investment return assumptions for publicly traded common stocks and other non-fixed income assets which are generally based on historical returns on market indices. The sensitivities shown in the tables above allow for the impact of changes in these limits following market falls.

The best estimate return assumptions for publicly traded common stocks and other non-fixed income assets are primarily based on long-term historical averages. The following provides information on the expected impacts of a 1% increase or 1% decrease in the best estimate assumptions:

	2020		2019	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions				
Increase (decrease) in non-participating insurance contract liabilities	\$ (691)	\$ 861	\$ (645)	\$ 752
Increase (decrease) in net earnings	\$ 556	\$ (682)	\$ 509	\$ (585)

The Company sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of Lifeco. The Company hedges its exposure to the equity risk associated with its PSU Plan through the use of total return swaps.

(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.

	2020			
	Gross amount of financial instruments presented in the Balance Sheet	Related amounts not set-off in the Balance Sheet		Net exposure
		Offsetting counterparty position ⁽¹⁾	Financial collateral received/pledged ⁽²⁾	
Financial instruments – assets				
Derivative financial instruments	\$ 829	\$ (596)	\$ (154)	\$ 79
Reverse repurchase agreements ⁽³⁾	4	–	(4)	–
Total financial instruments – assets	\$ 833	\$ (596)	\$ (158)	\$ 79
Financial instruments – liabilities				
Derivative financial instruments	\$ 1,221	\$ (596)	\$ (361)	\$ 264
Total financial instruments – liabilities	\$ 1,221	\$ (596)	\$ (361)	\$ 264
	2019			
	Gross amount of financial instruments presented in the Balance Sheet	Related amounts not set-off in the Balance Sheet		Net exposure
		Offsetting counterparty position ⁽¹⁾	Financial collateral received/pledged ⁽²⁾	
Financial instruments – assets				
Derivative financial instruments	\$ 451	\$ (309)	\$ (107)	\$ 35
Reverse repurchase agreements ⁽³⁾	4	–	(4)	–
Total financial instruments – assets	\$ 455	\$ (309)	\$ (111)	\$ 35
Financial instruments – liabilities				
Derivative financial instruments	\$ 1,381	\$ (309)	\$ (556)	\$ 516
Total financial instruments – liabilities	\$ 1,381	\$ (309)	\$ (556)	\$ 516

(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. At December 31, 2020, total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$211 (\$156 at December 31, 2019), received on reverse repurchase agreements was \$4 (\$4 at December 31, 2019), and pledged on derivative liabilities was \$560 (\$634 at December 31, 2019).

(3) Assets related to reverse repurchase agreements are included in bonds, on the Consolidated Balance Sheets.

9. 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 investment funds, 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, investment properties and equity release mortgages.

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

	2020			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Cash and cash equivalents	\$ 7,946	\$ –	\$ –	\$ 7,946
Financial assets at fair value through profit or loss				
Bonds	–	102,819	73	102,892
Mortgage loans	–	–	2,020	2,020
Stocks	8,773	188	1,374	10,335
Total financial assets at fair value through profit or loss	8,773	103,007	3,467	115,247
Available-for-sale financial assets				
Bonds	–	11,352	–	11,352
Stocks	3	1	16	20
Total available-for-sale financial assets	3	11,353	16	11,372
Investment properties	–	–	6,270	6,270
Funds held by ceding insurers	245	15,943	–	16,188
Derivatives ⁽¹⁾	1	828	–	829
Reinsurance assets	–	130	–	130
Other assets:				
Trading account assets	302	353	58	713
Other ⁽²⁾	79	188	–	267
Total assets measured at fair value	\$ 17,349	\$ 131,802	\$ 9,811	\$ 158,962
Liabilities measured at fair value				
Derivatives ⁽³⁾	\$ 5	\$ 1,216	\$ –	\$ 1,221
Investment contract liabilities	–	9,145	–	9,145
Other liabilities	79	188	–	267
Total liabilities measured at fair value	\$ 84	\$ 10,549	\$ –	\$ 10,633

(1) Excludes collateral received from counterparties of \$210.

(2) Includes collateral received under securities lending arrangements.

(3) Excludes collateral pledged to counterparties of \$442.

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

Notes to Consolidated Financial Statements

	2019			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Cash and cash equivalents	\$ 4,628	\$ —	\$ —	\$ 4,628
Financial assets at fair value through profit or loss				
Bonds	—	85,879	67	85,946
Mortgage loans	—	—	1,314	1,314
Stocks	8,956	118	678	9,752
Total financial assets at fair value through profit or loss	8,956	85,997	2,059	97,012
Available-for-sale financial assets				
Bonds	—	11,710	—	11,710
Stocks	12	—	4	16
Total available-for-sale financial assets	12	11,710	4	11,726
Investment properties	—	—	5,887	5,887
Funds held by ceding insurers	216	6,445	—	6,661
Derivatives ⁽¹⁾	—	451	—	451
Reinsurance assets	—	127	—	127
Other assets:				
Trading account assets	332	760	—	1,092
Other ⁽²⁾	43	355	—	398
Total assets measured at fair value	\$ 14,187	\$ 105,845	\$ 7,950	\$ 127,982
Liabilities measured at fair value				
Derivatives ⁽³⁾	\$ 3	\$ 1,378	\$ —	\$ 1,381
Investment contract liabilities	—	1,656	—	1,656
Other liabilities	43	355	—	398
Total liabilities measured at fair value	\$ 46	\$ 3,389	\$ —	\$ 3,435

(1) Excludes collateral received from counterparties of \$155.

(2) Includes collateral received under securities lending arrangements.

(3) Excludes collateral pledged to counterparties of \$580.

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

Notes to Consolidated Financial Statements

9. Fair Value Measurement (cont'd)

The following presents additional information about assets and liabilities measured at fair value on a recurring basis which the Company classifies as Level 3 in the fair value hierarchy:

	2020						
	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks ⁽⁴⁾	Available for-sale stocks	Investment properties	Trading accounts assets	Total Level 3 assets
Balance, beginning of year	\$ 67	\$ 1,314	\$ 678	\$ 4	\$ 5,887	\$ –	\$ 7,950
Total gains (losses)							
Included in net earnings	2	156	16	–	(74)	–	100
Included in other comprehensive income ⁽¹⁾	4	15	–	1	21	–	41
Purchases	–	–	406	11	481	–	898
Issues	–	622	–	–	–	–	622
Sales	–	–	(83)	–	(73)	–	(156)
Settlements	–	(87)	–	–	–	–	(87)
Transferred from owner occupied properties ⁽²⁾	–	–	–	–	28	–	28
Transfers into Level 3 ⁽³⁾	–	–	357	–	–	58	415
Transfers out of Level 3 ⁽³⁾	–	–	–	–	–	–	–
Balance, end of year	\$ 73	\$ 2,020	\$ 1,374	\$ 16	\$ 6,270	\$ 58	\$ 9,811
Total gains (losses) for the year included in net investment income	\$ 2	\$ 156	\$ 16	\$ –	\$ (74)	\$ –	\$ 100
Change in unrealized gains (losses) for the year included in earnings for assets held at December 31, 2020	\$ 2	\$ 145	\$ 17	\$ –	\$ (73)	\$ –	\$ 91

(1) Amount of other comprehensive income for fair value through profit or loss bonds, mortgage loans and investment properties represents the unrealized gains (losses) on foreign exchange.

(2) As a result of the sale of IPSI, a property with a fair value of \$28 was reclassified from owner occupied properties to investment properties. The reclassification resulted in the recognition of revaluation surplus on the transfer to investment properties of \$11 and income tax expense of \$(1) in the Consolidated Statements of Comprehensive Income.

(3) Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies or the placement of redemption restrictions on investments in mutual and segregated funds. 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.

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

Since March 20, 2020, Canada Life has temporarily suspended contributions to and transfers into, as well as redemptions and transfers out of, its Canadian real estate investment funds as the COVID-19 virus has impacted the global property market and made it difficult to value the properties with the same degree of certainty as usual. As a result of these restrictions, the Company's investment in these funds with a fair value of \$357 was transferred on March 20, 2020 from Level 1 to Level 3.

Subsequent event

On January 11, 2021, Canada Life lifted the temporary suspension on contributions to and transfers into its Canadian real estate investment funds as confidence over the valuation of the underlying properties has returned as a result of increased market activity. While the temporary suspension on redemptions and transfers out of the Canadian real estate funds remains, the funds are accepting initial redemption requests for a limited period which will be processed, subject to available liquidity, on pre-specified dates.

Notes to Consolidated Financial Statements

2019

	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks ⁽³⁾	Available for-sale stocks	Investment properties	Assets held for sale	Total Level 3 assets	Liabilities held for sale	Total Level 3 liabilities
Balance, beginning of year	\$ 67	\$ 813	\$ 404	\$ 2	\$ 5,218	\$ 29	\$ 6,533	\$ 26	\$ 26
Change in accounting policy	–	–	–	–	29	–	29	–	–
Revised balance, beginning of year	67	813	404	2	5,247	29	6,562	26	26
Total gains (losses)									
Included in net earnings	4	109	40	–	37	(2)	188	–	–
Included in other comprehensive income ⁽¹⁾	(4)	(5)	–	–	(36)	(1)	(46)	–	–
Purchases	–	–	299	2	644	–	945	–	–
Issues	–	469	–	–	–	–	469	–	–
Sales	–	–	(65)	–	(5)	(26)	(96)	–	–
Settlements	–	(72)	–	–	–	–	(72)	–	–
Other	–	–	–	–	–	–	–	(26)	(26)
Transfers into Level 3 ⁽²⁾	–	–	–	–	–	–	–	–	–
Transfers out of Level 3 ⁽²⁾	–	–	–	–	–	–	–	–	–
Balance, end of year	\$ 67	\$ 1,314	\$ 678	\$ 4	\$ 5,887	\$ –	\$ 7,950	\$ –	\$ –
Total gains (losses) for the year included in net investment income	\$ 4	\$ 109	\$ 40	\$ –	\$ 37	\$ (2)	\$ 188	\$ –	\$ –
Change in unrealized gains for the year included in earnings for assets held at December 31, 2019	\$ 4	\$ 105	\$ 38	\$ –	\$ 37	\$ –	\$ 184	\$ –	\$ –

(1) Amount of other comprehensive income for fair value through profit or loss bonds, mortgage loans and 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 or the placement of redemption restrictions on investments in mutual and segregated funds. 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 investment 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.

The following sets out information about significant unobservable inputs used at year-end in measuring assets categorized as Level 3 in the fair value hierarchy:

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 2.9% – 12.0%	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 3.9% – 6.8%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 3.0%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage loans – equity release mortgages (fair value through profit or loss)	The valuation approach for equity release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/entering into long term care of the loanholders.	Discount rate	Range of 3.2% – 4.4%	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.

Notes to Consolidated Financial Statements

9. Fair Value Measurement (cont'd)

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

	2020				
	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	\$ —	\$ 26,488	\$ 57	\$ —	\$ 26,545
Mortgage loans	—	27,613	—	—	27,613
Loans to policyholders	—	8,387	—	—	8,387
Total loans and receivables financial assets	—	62,488	57	—	62,545
Available-for-sale financial assets					
Stocks ⁽¹⁾	—	—	—	163	163
Other stocks ⁽²⁾	317	—	—	128	445
Funds held by ceding insurers	—	—	—	137	137
Total assets disclosed at fair value	\$ 317	\$ 62,488	\$ 57	\$ 428	\$ 63,290
Liabilities disclosed at fair value					
Debentures and other debt instruments	\$ 970	\$ 9,899	\$ —	\$ —	\$ 10,869
Total liabilities disclosed at fair value	\$ 970	\$ 9,899	\$ —	\$ —	\$ 10,869

(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 IGM.

	2019				
	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	\$ —	\$ 19,281	\$ 63	\$ —	\$ 19,344
Mortgage loans	—	23,832	—	—	23,832
Loans to policyholders	—	8,601	—	—	8,601
Total loans and receivables financial assets	—	51,714	63	—	51,777
Available-for-sale financial assets					
Stocks ⁽¹⁾	—	—	—	189	189
Other stocks ⁽²⁾	342	—	—	68	410
Funds held by ceding insurers	—	—	—	80	80
Total assets disclosed at fair value	\$ 342	\$ 51,714	\$ 63	\$ 337	\$ 52,456
Liabilities disclosed at fair value					
Debentures and other debt instruments	\$ 429	\$ 6,450	\$ —	\$ —	\$ 6,879
Total liabilities disclosed at fair value	\$ 429	\$ 6,450	\$ —	\$ —	\$ 6,879

(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 IGM.

10. Goodwill and Intangible Assets**(a) Goodwill**

- (i) The carrying value and changes in the carrying value of goodwill are as follows:

	2020	2019
Cost		
Balance, beginning of year	\$ 7,693	\$ 7,771
Business acquisitions	3,621	33
Finite life intangible assets	(12)	(6)
Changes in foreign exchange rates	(19)	(105)
Balance, end of year	\$ 11,283	\$ 7,693
Accumulated impairment		
Balance, beginning of year	\$ (1,188)	\$ (1,223)
Impairment	(16)	(19)
Changes in foreign exchange rates	27	54
Balance, end of year	\$ (1,177)	\$ (1,188)
Net carrying amount	\$ 10,106	\$ 6,505

- (ii) Within each of the three operating segments, goodwill has been assigned to cash generating unit groupings, representing the lowest level in which goodwill is monitored for internal reporting purposes. Lifeco does not allocate insignificant amounts of goodwill 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:

	2020	2019
Canada		
Group Customer	\$ 1,464	\$ 1,481
Individual Customer	2,553	2,562
Europe	2,395	2,282
United States		
Financial Services	3,694	180
Total	\$ 10,106	\$ 6,505

Notes to Consolidated Financial Statements

10. Goodwill and Intangible Assets (cont'd)

(b) Intangible Assets

Intangible assets of \$4,285 (\$3,879 as at December 31, 2019) 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:

	2020			
	Brands and trademarks	Customer contract related	Shareholders' portion of acquired future participating account profit	Total
Cost				
Balance, beginning of year	\$ 972	\$ 2,562	\$ 354	\$ 3,888
Additions	92	30	–	122
Changes in foreign exchange rates	(1)	(50)	–	(51)
Balance, end of year	\$ 1,063	\$ 2,542	\$ 354	\$ 3,959
Accumulated impairment				
Balance, beginning of year	\$ (133)	\$ (1,051)	\$ –	\$ (1,184)
Changes in foreign exchange rates	–	23	–	23
Balance, end of year	\$ (133)	\$ (1,028)	\$ –	\$ (1,161)
Net carrying amount	\$ 930	\$ 1,514	\$ 354	\$ 2,798
2019				
	Brands and trademarks	Customer contract related	Shareholders' portion of acquired future participating account profit	Total
Cost				
Balance, beginning of year	\$ 1,006	\$ 2,665	\$ 354	\$ 4,025
Changes in foreign exchange rates	(34)	(103)	–	(137)
Balance, end of year	\$ 972	\$ 2,562	\$ 354	\$ 3,888
Accumulated impairment				
Balance, beginning of year	\$ (140)	\$ (1,101)	\$ –	\$ (1,241)
Changes in foreign exchange rates	7	50	–	57
Balance, end of year	\$ (133)	\$ (1,051)	\$ –	\$ (1,184)
Net carrying amount	\$ 839	\$ 1,511	\$ 354	\$ 2,704

(ii) Indefinite life intangible assets have been assigned to cash generating unit groupings as follows:

	2020	2019
Canada		
Group Customer	\$ 354	\$ 354
Individual Customer	649	619
Europe	233	223
United States		
Asset Management	1,473	1,508
Financial Services	89	–
Total	\$ 2,798	\$ 2,704

Notes to Consolidated Financial Statements

(iii) Finite life intangible assets:

	2020			
	Customer contract related	Distribution channels	Technology/ Software	Total
Amortization period range	7 – 30 years	30 years	3 – 10 years	
Amortization method	Straight-line	Straight-line	Straight-line	
Cost				
Balance, beginning of year	\$ 1,031	\$ 108	\$ 1,885	\$ 3,024
Additions	214	–	341	555
Changes in foreign exchange rates	3	3	(6)	–
Disposals	–	–	(35)	(35)
Balance, end of year	\$ 1,248	\$ 111	\$ 2,185	\$ 3,544
Accumulated amortization and impairment				
Balance, beginning of year	\$ (630)	\$ (60)	\$ (1,159)	\$ (1,849)
Changes in foreign exchange rates	(3)	(1)	5	1
Disposals	–	–	29	29
Amortization	(55)	(4)	(179)	(238)
Balance, end of year	\$ (688)	\$ (65)	\$ (1,304)	\$ (2,057)
Net carrying amount	\$ 560	\$ 46	\$ 881	\$ 1,487
2019				
	Customer contract related	Distribution channels	Technology/ Software	Total
Amortization period range	7 – 30 years	30 years	3 – 10 years	
Amortization method	Straight-line	Straight-line	Straight-line	
Cost				
Balance, beginning of year	\$ 1,047	\$ 111	\$ 1,717	\$ 2,875
Additions	11	–	247	258
Changes in foreign exchange rates	(27)	(3)	(54)	(84)
Disposals	–	–	(25)	(25)
Balance, end of year	\$ 1,031	\$ 108	\$ 1,885	\$ 3,024
Accumulated amortization and impairment				
Balance, beginning of year	\$ (586)	\$ (57)	\$ (1,040)	\$ (1,683)
Changes in foreign exchange rates	11	1	41	53
Disposals	–	–	5	5
Amortization	(55)	(4)	(165)	(224)
Balance, end of year	\$ (630)	\$ (60)	\$ (1,159)	\$ (1,849)
Net carrying amount	\$ 401	\$ 48	\$ 726	\$ 1,175

The weighted average remaining amortization period of the customer contract related and distribution channels are 14 and 13 years respectively (13 and 14 years respectively at December 31, 2019).

Notes to Consolidated Financial Statements

10. Goodwill and Intangible Assets (cont'd)

(c) Recoverable Amount

For the purposes of annual impairment testing, the Company allocates indefinite life intangibles to cash generating units and goodwill to cash generating unit groupings. Any potential impairment of indefinite life intangible assets is identified by comparing the recoverable amount of a cash generating unit to its carrying value. Any potential impairment of goodwill is identified by comparing the recoverable amount of a cash generating unit grouping to its carrying value.

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 2020, the Company conducted its annual impairment testing of intangible assets and goodwill based on September 30, 2020 asset balances. It was determined that the recoverable amounts of cash generating units for intangible assets and cash generating unit groupings for goodwill were in excess of their carrying values and there was no evidence of significant impairment.

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

11. Owner Occupied Properties and Fixed Assets

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

	2020	2019
Carrying value, beginning of year	\$ 842	\$ 835
Less: accumulated depreciation/impairments	(115)	(104)
Net carrying value, beginning of year	727	731
Additions	42	34
Disposals	—	(10)
Impairment recovery	—	2
Transferred to investment properties ⁽¹⁾	(17)	—
Depreciation	(15)	(13)
Foreign exchange	4	(17)
Net carrying value, end of year	\$ 741	\$ 727

(1) As a result of the sale of IPSI, a property with a carrying value of \$17 was reclassified from owner occupied properties to investment properties.

The net carrying value of fixed assets is \$426 at December 31, 2020 (\$455 at December 31, 2019).

The following provides details of the net carrying value of owner occupied properties and fixed assets by operating segment:

	2020	2019
Canada	\$ 640	\$ 650
United States	321	334
Europe ⁽¹⁾	205	196
Capital and Risk Solutions ⁽¹⁾	1	2
Total	\$ 1,167	\$ 1,182

(1) See comparative figures (note 32).

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

Notes to Consolidated Financial Statements

12. Other Assets

	2020	2019
Deferred acquisition costs	\$ 618	\$ 595
Right-of-use assets	437	466
Trading account assets ⁽¹⁾	713	1,092
Finance leases receivable	404	405
Defined benefit pension plan assets (note 23)	240	231
Prepaid expenses	115	113
Miscellaneous other assets	820	208
Total	\$ 3,347	\$ 3,110

(1) Includes bonds of \$386 and stocks of \$327 at December 31, 2020 (bonds of \$726 and stocks of \$366 at December 31, 2019).

Total other assets of \$1,678 (\$1,443 at December 31, 2019) 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	2020	2019
Balance, beginning of year	\$ 595	\$ 597
Additions	93	118
Amortization	(55)	(51)
Changes in foreign exchange rates	26	(32)
Disposals	(41)	(36)
Write-off	—	(1)
Balance, end of year	\$ 618	\$ 595

	2020		
Right-of-use assets	Property	Equipment	Total
Cost, beginning of year	\$ 530	\$ 7	\$ 537
Additions	47	1	48
Modifications	(5)	—	(5)
Changes in foreign exchange rates	(4)	—	(4)
Cost, end of year	\$ 568	\$ 8	\$ 576
Accumulated amortization, beginning of year	\$ (69)	\$ (2)	\$ (71)
Amortization	(68)	(3)	(71)
Changes in foreign exchange rates	3	—	3
Accumulated amortization, end of year	\$ (134)	\$ (5)	\$ (139)
Carrying amount, end of year	\$ 434	\$ 3	\$ 437

	2019		
	Property	Equipment	Total
Cost, beginning of year	\$ 454	\$ 6	\$ 460
Additions	113	1	114
Modifications	(21)	—	(21)
Changes in foreign exchange rates	(16)	—	(16)
Cost, end of year	\$ 530	\$ 7	\$ 537
Accumulated amortization, beginning of year	\$ —	\$ —	\$ —
Amortization	(67)	(2)	(69)
Impairment	(3)	—	(3)
Changes in foreign exchange rates	1	—	1
Accumulated amortization, end of year	\$ (69)	\$ (2)	\$ (71)
Carrying amount, end of year	\$ 461	\$ 5	\$ 466

Notes to Consolidated Financial Statements

12. Other Assets (cont'd)

Finance leases receivable

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

The terms to maturity of the lease payments receivable are as follows:

	2020	2019
One year or less	\$ 30	\$ 30
Over one year to two years	30	30
Over two years to three years	30	30
Over three years to four years	30	30
Over four years to five years	30	30
Over five years	662	686
Total undiscounted lease payments	812	836
Less: unearned finance lease income	408	431
Total finance leases receivable	\$ 404	\$ 405
Finance income on the net investment in the leases	\$ 26	\$ 26

Notes to Consolidated Financial Statements

13. Insurance and Investment Contract Liabilities

(a) Insurance and investment contract liabilities

	2020		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 208,902	\$ 21,991	\$ 186,911
Investment contract liabilities	9,145	130	9,015
Total	\$ 218,047	\$ 22,121	\$ 195,926

	2019		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 174,521	\$ 20,580	\$ 153,941
Investment contract liabilities	1,656	127	1,529
Total	\$ 176,177	\$ 20,707	\$ 155,470

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

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

	2020		
	Gross liability	Reinsurance assets	Net
Participating			
Canada	\$ 46,107	\$ (199)	\$ 46,306
United States	11,090	13	11,077
Europe	155	—	155
Capital and Risk Solutions	912	—	912
Non-Participating			
Canada	35,449	638	34,811
United States	65,703	15,908	49,795
Europe	48,088	5,622	42,466
Capital and Risk Solutions	10,543	139	10,404
Total	\$ 218,047	\$ 22,121	\$ 195,926

	2019		
	Gross liability	Reinsurance assets	Net
Participating			
Canada	\$ 42,271	\$ (247)	\$ 42,518
United States	11,329	12	11,317
Europe ⁽¹⁾	173	—	173
Capital and Risk Solutions ⁽¹⁾	846	—	846
Non-Participating			
Canada	32,668	498	32,170
United States	32,360	15,091	17,269
Europe ⁽¹⁾	45,489	5,230	40,259
Capital and Risk Solutions ⁽¹⁾	11,041	123	10,918
Total	\$ 176,177	\$ 20,707	\$ 155,470

(1) See comparative figures (note 32).

Notes to Consolidated Financial Statements

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

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

	2020					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Canada	\$ 21,803	\$ 10,545	\$ 6,152	\$ 2,983	\$ 4,624	\$ 46,107
United States	5,193	593	13	—	5,291	11,090
Europe	84	—	62	9	—	155
Capital and Risk Solutions	688	12	—	—	212	912
Non-participating liabilities						
Canada	21,511	4,498	2,789	360	6,291	35,449
United States	31,631	4,586	46	—	29,440	65,703
Europe	34,941	5,746	332	2,536	4,533	48,088
Capital and Risk Solutions	2,365	52	—	—	8,126	10,543
Other	15,285	1,135	754	141	338,113	355,428
Total equity	4,091	636	852	241	21,195	27,015
Total carrying value	\$ 137,592	\$ 27,803	\$ 11,000	\$ 6,270	\$ 417,825	\$ 600,490
Fair value	\$ 140,789	\$ 29,633	\$ 10,963	\$ 6,270	\$ 417,825	\$ 605,480
	2019					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Canada	\$ 19,484	\$ 9,655	\$ 6,142	\$ 2,472	\$ 4,518	\$ 42,271
United States	5,128	626	—	—	5,575	11,329
Europe ⁽¹⁾	97	—	63	12	1	173
Capital and Risk Solutions ⁽¹⁾	619	20	—	—	207	846
Non-participating liabilities						
Canada	20,270	4,111	2,237	407	5,643	32,668
United States	14,311	2,678	—	—	15,371	32,360
Europe ⁽¹⁾	33,062	5,387	299	2,672	4,069	45,489
Capital and Risk Solutions ⁽¹⁾	2,484	55	—	—	8,502	11,041
Other	15,630	902	902	119	231,894	249,447
Total equity	3,943	834	732	205	19,829	25,543
Total carrying value	\$ 115,028	\$ 24,268	\$ 10,375	\$ 5,887	\$ 295,609	\$ 451,167
Fair value	\$ 117,000	\$ 25,146	\$ 10,367	\$ 5,887	\$ 295,609	\$ 454,009

(1) See comparative figures (note 32).

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

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

Notes to Consolidated Financial Statements

(c) Change in insurance contract liabilities

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

	2020			
	Participating			
	Gross liability	Reinsurance assets	Net	
Balance, beginning of year	\$ 54,619	\$ (235)	\$ 54,854	
Impact of new business	(7)	32	(39)	
Normal change in force	3,883	9	3,874	
Management action and changes in assumptions	55	8	47	
Impact of foreign exchange rate changes	(286)	—	(286)	
Balance, end of year	\$ 58,264	\$ (186)	\$ 58,450	
	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	\$ 119,902	\$ 20,815	\$ 99,087	\$ 153,941
Impact of new business	7,028	706	6,322	6,283
Normal change in force	1,296	750	546	4,420
Management action and changes in assumptions	161	109	52	99
Business movement from/to external parties	(48)	—	(48)	(48)
MassMutual acquisition (note 3)	22,316	—	22,316	22,316
Impact of foreign exchange rate changes	(17)	(203)	186	(100)
Balance, end of year	\$ 150,638	\$ 22,177	\$ 128,461	\$ 186,911
	2019			
	Participating			
	Gross liability	Reinsurance assets	Net	
Balance, beginning of year	\$ 50,927	\$ (337)	\$ 51,264	
Impact of new business	59	—	59	
Normal change in force	4,138	25	4,113	
Management action and changes in assumptions	67	77	(10)	
Impact of foreign exchange rate changes	(572)	—	(572)	
Balance, end of year	\$ 54,619	\$ (235)	\$ 54,854	
	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	\$ 115,793	\$ 6,463	\$ 109,330	\$ 160,594
Impact of new business	5,339	(266)	5,605	5,664
Normal change in force	1,784	645	1,139	5,252
Management action and changes in assumptions	(117)	(73)	(44)	(54)
Business movement from/to external parties	(176)	14,802	(14,978)	(14,978)
Impact of foreign exchange rate changes	(2,721)	(756)	(1,965)	(2,537)
Balance, end of year	\$ 119,902	\$ 20,815	\$ 99,087	\$ 153,941

Notes to Consolidated Financial Statements

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

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

In 2020, the major contributors to the increase in net insurance contract liabilities was the acquisition of MassMutual of \$22,316, the impact of new business of \$6,283, and the normal change in the in force business of \$4,420.

Net non-participating insurance contract liabilities increased by \$52 due to management actions and changes in assumptions including a \$377 increase in Canada, partially offset by decreases of \$212 in Europe, \$59 in Capital & Risk Solutions, and \$54 in the United States.

The increase in Canada was primarily due to updated policyholder behaviour assumptions of \$269, updated morbidity assumptions of \$140, of which \$114 is offset by an increase in other assets, and updated economic and asset related assumptions of \$98. This was partially offset by decreases due to updated life mortality assumptions of \$129.

The decrease in Europe was primarily due to updated longevity assumptions of \$138, modeling refinements of \$28, updated morbidity assumptions of \$24, updated policyholder behaviour assumptions of \$19, and updated economic and asset related assumptions of \$10. This was partially offset by an increase due to updated expense and tax assumptions of \$6.

The decrease in Capital and Risk Solutions was primarily due to updated longevity assumptions of \$135, updated economic assumptions of \$41, and modeling refinements of \$37. This was partially offset by increases due to updated life mortality assumptions of \$107, updated expense and tax assumptions of \$28, and updated policyholder behaviour assumptions of \$14.

The decrease in the United States was primarily due to updated economic assumptions of \$50.

Net participating insurance contract liabilities increased by \$47 in 2020 due to management actions and changes in assumptions. The increase was primarily due to updated economic assumptions of \$2,358, and updated policyholder behaviour assumptions of \$34. This was partially offset by decreases due to provisions for future policyholder dividends of \$1,899, updated expense and tax assumptions of \$446, and modeling refinements of \$5.

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

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

Net non-participating insurance contract liabilities decreased by \$44 in 2019 due to management actions and assumption changes including a \$272 decrease in Europe, partially offset by a \$145 increase in Canada, a \$52 increase in the United States, and a \$31 increase in Capital and Risk Solutions.

The decrease in Europe was primarily due to updated longevity assumptions of \$187, updated economic assumptions of \$98, which includes the net impact of new standards, and updated life mortality assumptions of \$7, partially offset by increases due to updated expense and tax assumptions of \$25.

The increase in Canada was primarily due to updated policyholder behaviour assumptions of \$254, and updated longevity assumptions of \$54, partially offset by decreases due to updated morbidity assumptions of \$169 and updated economic assumptions of \$6, which includes the net impact of the new standards.

The increase in the United States was primarily due to updated expense and tax assumptions of \$45, and updated mortality assumptions of \$43 partially offset by decreases due to updated economic assumptions of \$34, which includes the net impact of new standards.

The increase in Capital and Risk Solutions was primarily due to updated life mortality assumptions of \$87, and updated expense and tax assumptions of \$34, partially offset by decreases due to updated longevity assumptions of \$112 and updated economic assumptions of \$3, which includes the net impact of new standards.

Net participating insurance contract liabilities decreased by \$10 in 2019 due to management actions and assumption changes. The decrease was primarily due to updated provisions for future policyholder dividends \$2,232, updated expense and tax assumptions of \$535, and modeling refinements of \$198. This was partially offset by increases due to updated economic assumptions of \$1,884, updated policyholder behaviour assumptions of \$935 and updated mortality assumptions of \$153.

Notes to Consolidated Financial Statements

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

	2020			2019		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Balance, beginning of year	\$ 1,656	\$ 127	\$ 1,529	\$ 1,711	\$ —	\$ 1,711
Normal change in force business	2,489	(20)	2,509	(87)	38	(125)
Investment experience	147	26	121	103	(23)	126
Management action and changes in assumptions	(4)	—	(4)	(4)	—	(4)
Business movement from/to external parties	—	—	—	—	116	(116)
MassMutual acquisition (note 3)	4,984	—	4,984	—	—	—
Impact of foreign exchange rate changes	(127)	(3)	(124)	(67)	(4)	(63)
Balance, end of year	\$ 9,145	\$ 130	\$ 9,015	\$ 1,656	\$ 127	\$ 1,529

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

(e) Gross premiums written and gross policyholder benefits

(i) Premium Income

	2020	2019
Direct premiums	\$ 28,102	\$ 25,419
Assumed reinsurance premiums	19,652	17,847
Total	\$ 47,754	\$ 43,266

(ii) Policyholder Benefits

	2020	2019
Direct	\$ 19,538	\$ 19,643
Assumed reinsurance	20,067	18,126
Total	\$ 39,605	\$ 37,769

(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 are used to modify established 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.

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

Property and casualty reinsurance

Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group (LRG), a subsidiary of Canada Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities are based on cession statements provided by ceding companies. In addition, insurance contract liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (note 8(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 the Canadian Asset Liability Method as inflation is assumed to be correlated with new money interest rates.

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company's most significant exposures are in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of term for renewable term policies in Canada and Capital and Risk Solutions. 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.

Notes to Consolidated Financial Statements

(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.

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

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

	Increase (decrease) in net earnings	
	2020	2019
Mortality – 2% increase	\$ (288)	\$ (279)
Annuitant mortality – 2% decrease	\$ (756)	\$ (601)
Morbidity – 5% adverse change	\$ (279)	\$ (253)
Investment returns		
Parallel shift in yield curve		
1% increase	\$ –	\$ –
1% decrease	\$ –	\$ –
Change in interest rates		
1% increase	\$ 224	\$ 175
1% decrease	\$ (920)	\$ (619)
Change in publicly traded common stock values		
20% increase	\$ 28	\$ 54
10% increase	\$ 15	\$ 27
10% decrease	\$ (51)	\$ (39)
20% decrease	\$ (208)	\$ (182)
Change in other non-fixed income asset values		
10% increase	\$ 34	\$ 60
5% increase	\$ 6	\$ 25
5% decrease	\$ (69)	\$ (28)
10% decrease	\$ (108)	\$ (90)
Change in best estimate return assumptions for equities		
1% increase	\$ 556	\$ 509
1% decrease	\$ (682)	\$ (585)
Expenses – 5% increase	\$ (165)	\$ (125)
Policy termination and renewal – 10% adverse change	\$ (1,017)	\$ (813)

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.

	2020			2019		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Canada	\$ 81,556	\$ 439	\$ 81,117	\$ 74,939	\$ 251	\$ 74,688
United States	76,793	15,921	60,872	43,689	15,103	28,586
Europe ⁽¹⁾	48,243	5,622	42,621	45,662	5,230	40,432
Capital and Risk Solutions ⁽¹⁾	11,455	139	11,316	11,887	123	11,764
Total	\$ 218,047	\$ 22,121	\$ 195,926	\$ 176,177	\$ 20,707	\$ 155,470

(1) See comparative figures (note 32).

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

(ii) Reinsurance risk

Maximum limits per insured life benefit amount (which vary by line of business) are established for life and health insurance, and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

14. Segregated Funds and Other Structured Entities

The Company offers segregated fund products in Canada, the U.S. and Europe that are referred to as segregated funds, separate accounts and unit-linked funds in the respective 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 and the U.S., the segregated fund and separate account 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 \$1,490 at December 31, 2020 (\$1,147 at December 31, 2019).

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

In Canada, the Company offers retail segregated fund products through Canada Life. These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits.

In the U.S., the Company offers group variable annuities with guaranteed minimum withdrawal benefits (GMWB) and group standalone GMDB products which mainly provide return of premium on death.

In Europe, the Company offers UWP products in Germany and unit-linked products with investment guarantees in Ireland. These products are similar to segregated fund products but include minimum credited interest rates and pooling of policyholders' funds.

The Company also offers a GMWB product in the U.S., and Germany, and previously offered GMWB product in Canada and Ireland. Certain GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2020, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was \$3,375 (\$3,332 at December 31, 2019).

Notes to Consolidated Financial Statements

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

	2020	2019
Cash and cash equivalents	\$ 15,558	\$ 12,501
Bonds	65,338	44,973
Mortgage loans	2,686	2,670
Stocks and units in unit trusts	112,675	104,330
Mutual funds	127,577	55,779
Investment properties	12,430	12,986
	336,264	233,239
Accrued income	463	373
Other liabilities	(4,185)	(3,737)
Non-controlling mutual funds interest	1,490	1,147
Total ⁽¹⁾	\$ 334,032	\$ 231,022

(1) At December 31, 2020, \$84,785 of investments on account of segregated fund policyholders are reinsured by the Company on a modified coinsurance basis (nil at December 31, 2019) (note 3). Included in this amount are \$87 of cash and cash equivalents, \$15,320 of bonds, \$23 of stocks and units in unit trusts, \$69,259 of mutual funds, \$100 of accrued income and \$(4) of other liabilities.

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

	2020	2019
Balance, beginning of year	\$ 231,022	\$ 209,527
Additions (deductions):		
Policyholder deposits	21,916	24,685
Net investment income	2,695	3,331
Net realized capital gains on investments	8,954	4,265
Net unrealized capital gains on investments	474	19,658
Unrealized gains (losses) due to changes in foreign exchange rates	3,920	(6,539)
Policyholder withdrawals	(20,371)	(24,721)
Business acquisition ⁽¹⁾	84,785	—
Change in Segregated Fund investment in General Fund	51	(4)
Change in General Fund investment in Segregated Fund	234	105
Net transfer from General Fund	9	23
Non-controlling mutual funds interest	343	283
Transfer from assets held for sale	—	409
Total	103,010	21,495
Balance, end of year	\$ 334,032	\$ 231,022

(1) Investment and insurance contracts on account of segregated fund policyholders acquired through the acquisition of MassMutual (note 3).

(c) Investment income on account of segregated fund policyholders

	2020	2019
Net investment income	\$ 2,695	\$ 3,331
Net realized capital gains on investments	8,954	4,265
Net unrealized capital gains on investments	474	19,658
Unrealized gains (losses) due to changes in foreign exchange rates	3,920	(6,539)
Total	16,043	20,715
Change in investment and insurance contracts liability on account of segregated fund policyholders	16,043	20,715
Net	\$ —	\$ —

Notes to Consolidated Financial Statements

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

(d) Investments on account of segregated fund policyholders by fair value hierarchy level (note 9)

	2020			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ⁽¹⁾	\$ 224,831	\$ 98,424	\$ 13,556	\$ 336,811

(1) Excludes other liabilities, net of other assets, of \$2,779.

	2019			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ⁽¹⁾	\$ 146,861	\$ 73,173	\$ 13,988	\$ 234,022

(1) Excludes other liabilities, net of other assets, of \$3,000.

During 2020, certain foreign stock holdings valued at \$3,190 have been transferred from Level 1 to Level 2 (\$153 were transferred from Level 1 to Level 2 at December 31, 2019) primarily based on the Company's change in use of 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 access to the underlying asset details within an investment fund.

As at December 31, 2020, \$9,770 (\$8,471 at December 31, 2019) of the segregated funds were invested in funds managed by related parties IG Wealth Management and Mackenzie Investments, members of the Power Corporation 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:

	2020	2019		
	Total ⁽¹⁾	Investments on account of segregated fund policyholders	Investments on account of segregated fund policyholders held for sale	Total
Balance, beginning of year	\$ 13,988	\$ 13,235	\$ 9	\$ 13,244
Change in accounting policy	–	136	–	136
Revised balance, beginning of year	13,988	13,371	9	13,380
Total gains (losses) included in segregated fund investment income	78	141	(1)	140
Purchases	167	760	–	760
Sales	(712)	(284)	(8)	(292)
Transfers into Level 3	35	–	–	–
Transfers out of Level 3	–	–	–	–
Balance, end of year	\$ 13,556	\$ 13,988	\$ –	\$ 13,988

(1) At December 31, 2020, there were no investments on account of segregated fund policyholders held for sale.

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

Some of these funds are managed by related parties of 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 2020, fee and other income earned by the Company resulting from the Company's interests in segregated funds and other structured entities was \$5,034 (\$4,919 during 2019).

Included within other assets (note 12) at December 31, 2020 is \$557 (\$957 at December 31, 2019) of investments by the Company in bonds and stocks of Putnam sponsored funds and \$156 (\$135 at December 31, 2019) of investments in stocks of sponsored unit trusts in Europe.

Notes to Consolidated Financial Statements

15. Debentures and Other Debt Instruments

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Short-term				
Commercial paper and other short-term debt instruments with interest rates from 0.223% to 0.274% (1.828% to 2.089% at December 31, 2019), unsecured	\$ 125	\$ 125	\$ 130	\$ 130
Revolving credit facility with interest equal to LIBOR plus 0.70% (U.S. \$165; U.S. \$230 at December 31, 2019), unsecured	210	210	299	299
Revolving credit facility with interest equal to LIBOR plus 1.00% (U.S. \$500), unsecured	635	635	—	—
Total short-term	970	970	429	429
Capital:				
Current				
Lifeco				
4.65% Debentures due August 13, 2020, unsecured, repaid during the year	—	—	500	508
Long-term				
Lifeco				
6.74% Debentures due November 24, 2031, unsecured	195	287	194	278
6.67% Debentures due March 21, 2033, unsecured	394	575	393	557
5.998% Debentures due November 16, 2039, unsecured	342	504	342	487
3.337% Debentures due February 28, 2028, unsecured	498	566	498	526
2.981% Debentures due July 8, 2050, unsecured	493	514	—	—
2.50% Debentures due April 18, 2023, unsecured, (500 euro)	774	825	728	788
2.379% Debentures due May 14, 2030, unsecured	597	637	—	—
1.75% Debentures due December 7, 2026, unsecured, (500 euro)	771	857	725	785
	4,064	4,765	2,880	3,421
Canada Life				
6.40% Subordinated debentures due December 11, 2028, unsecured	100	135	100	128
Canada Life Capital Trust (CLCT)				
7.529% due June 30, 2052, unsecured, face value \$150	158	222	159	221
Great-West Lifeco Finance 2018, LP				
4.581% Senior notes due May 17, 2048, unsecured, (U.S. \$500)	628	732	643	749
4.047% Senior notes due May 17, 2028, unsecured, (U.S. \$300)	379	420	388	430
	1,007	1,152	1,031	1,179
Great-West Lifeco Finance (Delaware) LP				
4.15% Senior notes due June 3, 2047, unsecured, (U.S. \$700)	874	970	894	993
Great-West Lifeco U.S. Finance 2020, LP				
0.904% Senior notes due August 12, 2025, unsecured, (U.S. \$500)	631	638	—	—
Empower Finance 2020, LP				
3.075% Senior notes due September 17, 2051, unsecured, (U.S. \$700)	879	984	—	—
1.776% Senior notes due March 17, 2031, unsecured, (U.S. \$400)	505	521	—	—
1.357% Senior notes due September 17, 2027, unsecured, (U.S. \$400)	505	512	—	—
	1,889	2,017	—	—
Total long-term	8,723	9,899	5,564	6,450
Total	\$ 9,693	\$ 10,869	\$ 5,993	\$ 6,879

On May 14, 2020, the Company issued \$600 aggregate principal amount 2.379% debentures at par, maturing on May 14, 2030. Interest on the debentures is payable semi-annually in arrears on May 14 and November 14 in each year, commencing November 14, 2020 until the date on which the debentures are repaid. The debentures are redeemable at any time prior to February 14, 2030 in whole or in part at the greater of the Canada Yield Price (as defined in the trust indenture governing the debentures) and par, and on or after February 14, 2030 in whole or in part at par, together in each case with accrued and unpaid interest.

On July 8, 2020, the Company issued \$250 aggregate principal amount 2.981% debentures at par, maturing on July 8, 2050. Interest on the debentures is payable semi-annually in arrears on January 8 and July 8 in each year, commencing January 8, 2021 until the date on which the debentures are repaid. The debentures are redeemable at any time prior to January 8, 2050 in whole or in part at the greater of the Canada Yield Price (as defined in the trust indenture governing the debentures) and par, and on or after January 8, 2050 in whole or in part at par, together in each case with accrued and unpaid interest.

Notes to Consolidated Financial Statements

15. Debentures and Other Debt Instruments (cont'd)

On July 13, 2020, the Company announced the re-opening of the offering of 2.981% debentures due July 8, 2050, and on July 15, 2020 issued an additional \$250 aggregate principal amount. The July 15, 2020 debentures were issued at a price of \$986.31 per \$1,000 par value for an effective yield of 3.051%. Upon issuance of the July 15, 2020 debentures, \$500 aggregate principal amount of 2050 debentures was issued and outstanding. The July 15, 2020 debentures form a single series with, are issued under the same Committee on Uniform Securities Identification Procedures (CUSIP) number as, and have the same terms as to status, redemption or otherwise as, the initial debentures issued on July 8, 2020.

On August 12, 2020, Great-West Lifeco U.S. Finance 2020, LP, a subsidiary of the Company, issued \$663 (U.S. \$500) aggregate principal amount of 0.904% senior notes due August 12, 2025. The senior notes are fully and unconditionally guaranteed by the Company.

On August 13, 2020, the Company repaid the principal amount of its maturing 4.65% \$500 debentures, together with accrued interest.

On September 17, 2020, Empower Finance 2020, LP, a subsidiary of the Company, issued \$526 (U.S. \$400) aggregate principal amount of 1.357% senior notes due September 17, 2027, \$526 (U.S. \$400) aggregate principal amount of 1.776% senior notes due March 17, 2031 and \$921 (U.S. \$700) aggregate principal amount of 3.075% senior notes due September 17, 2051. The senior notes are fully and unconditionally guaranteed by the Company.

On November 2, 2020, Great-West Lifeco U.S. LLC, a subsidiary of the Company, established a 1-year \$635 (U.S. \$500) revolving credit facility with interest on the drawn balance equal to the LIBOR rate plus 1.00%. The facility is fully and unconditionally guaranteed by the Company. The facility was fully drawn as at December 31, 2020, with the proceeds used to finance a portion of the MassMutual retirement services business acquisition (note 3).

Capital Trust Securities

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 16). The fair value for capital trust securities is determined by the bid-ask price. Refer to note 8 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.

16. Financing Charges

Financing charges consist of the following:

	2020	2019
Operating charges:		
Interest on operating lines and short-term debt instruments	\$ 5	\$ 12
Financial charges:		
Interest on long-term debentures and other debt instruments	251	243
Interest on capital trust securities	11	11
Other	17	19
	<u>279</u>	<u>273</u>
Total	\$ 284	\$ 285

Notes to Consolidated Financial Statements

17. Other Liabilities

	2020	2019
Pension and other post-employment benefits (note 23)	\$ 1,630	\$ 1,520
Lease liabilities	568	585
Bank overdraft	444	379
Deferred income reserves	345	380
Other	2,160	1,825
Total	\$ 5,147	\$ 4,689

Total other liabilities of \$2,604 (\$2,204 at December 31, 2019) are expected to be realized within 12 months from the reporting date. This amount excludes deferred income reserves, the changes in which are noted below.

	2020	2019
Deferred income reserves		
Balance, beginning of year	\$ 380	\$ 441
Additions	51	70
Amortization	(78)	(81)
Changes in foreign exchange	12	(15)
Disposals	(20)	(35)
Balance, end of year	\$ 345	\$ 380

	2020		
	Property	Equipment	Total
Lease liabilities			
Balance, beginning of year	\$ 580	\$ 5	\$ 585
Additions	56	1	57
Modifications	(4)	—	(4)
Lease payments	(85)	(3)	(88)
Changes in foreign exchange rates	(4)	—	(4)
Interest	22	—	22
Balance, end of year	\$ 565	\$ 3	\$ 568

	2019		
	Property	Equipment	Total
Balance, beginning of year	\$ 545	\$ 6	\$ 551
Additions	124	1	125
Modifications	(22)	—	(22)
Lease payments	(72)	(2)	(74)
Changes in foreign exchange rates	(17)	—	(17)
Interest	22	—	22
Balance, end of year	\$ 580	\$ 5	\$ 585

The following table presents the contractual undiscounted cash flows for lease obligations:

	2020	2019
One year or less	\$ 88	\$ 83
Over one year to two years	78	78
Over two years to three years	67	66
Over three years to four years	60	56
Over four years to five years	54	53
Over five years	387	417
Total undiscounted lease obligations	\$ 734	\$ 753

18. Non-Controlling Interests

The Company has a controlling equity interest in Canada Life, GWL&A, and Putnam at December 31, 2020. The Company had a controlling equity interest in Canada Life, GWL&A, The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life) and Putnam at December 31, 2019. The non-controlling interests previously attributable to Great-West Life and London Life are now included in the non-controlling interests of Canada Life as part of the Canada Life amalgamation.

Non-controlling interests attributable to participating account surplus is the proportion of the equity attributable to the participating account of the Company's subsidiaries.

Non-controlling interests in subsidiaries also include non-controlling interests for the issued and outstanding shares of Putnam and PanAgora held by employees of the respective companies, and non-controlling interests through Irish Life's controlling interest in Invesco Ltd. (Ireland).

(a) The non-controlling interests recorded in the Consolidated Statements of Earnings and other comprehensive income are as follows:

	2020	2019
Net earnings attributable to participating account before policyholder dividends		
Canada Life	\$ 1,429	\$ 302
GWL&A	1	3
Great-West Life	–	150
London Life	–	919
	<u>1,430</u>	<u>1,374</u>
Policyholder dividends		
Canada Life	(1,362)	(315)
GWL&A	(2)	(3)
Great-West Life	–	(166)
London Life	–	(880)
	<u>(1,364)</u>	<u>(1,364)</u>
Net earnings – participating account	66	10
Non-controlling interests in subsidiaries	12	5
Total	<u>\$ 78</u>	<u>\$ 15</u>

The non-controlling interests recorded in other comprehensive income (loss) for the year ended December 31, 2020 was \$37 (\$30 for the year ended December 31, 2019).

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

	2020	2019
Participating account surplus in subsidiaries:		
Canada Life	\$ 2,858	\$ 284
GWL&A	13	14
Great-West Life	–	595
London Life	–	1,866
Total	<u>\$ 2,871</u>	<u>\$ 2,759</u>
Non-controlling interests in subsidiaries	<u>\$ 116</u>	<u>\$ 107</u>

Notes to Consolidated Financial Statements

19. Share Capital

Authorized

Unlimited First Preferred Shares, Class A Preferred Shares and Second Preferred Shares

Unlimited Common Shares

Issued and outstanding and fully paid

	2020		2019	
	Number	Carrying value	Number	Carrying value
First Preferred Shares				
Series F, 5.90% Non-Cumulative	7,740,032	\$ 194	7,740,032	\$ 194
Series G, 5.20% Non-Cumulative	12,000,000	300	12,000,000	300
Series H, 4.85% Non-Cumulative	12,000,000	300	12,000,000	300
Series I, 4.50% Non-Cumulative	12,000,000	300	12,000,000	300
Series L, 5.65% Non-Cumulative	6,800,000	170	6,800,000	170
Series M, 5.80% Non-Cumulative	6,000,000	150	6,000,000	150
Series N, Non-Cumulative 5-Year Rate Reset	10,000,000	250	8,524,422	213
Series O, Non-Cumulative Floating Rate	—	—	1,475,578	37
Series P, 5.40% Non-Cumulative	10,000,000	250	10,000,000	250
Series Q, 5.15% Non-Cumulative	8,000,000	200	8,000,000	200
Series R, 4.80% Non-Cumulative	8,000,000	200	8,000,000	200
Series S, 5.25% Non-Cumulative	8,000,000	200	8,000,000	200
Series T, 5.15% Non-Cumulative	8,000,000	200	8,000,000	200
Total	108,540,032	\$ 2,714	108,540,032	\$ 2,714
Common shares				
Balance, beginning of year	927,281,186	\$ 5,633	987,739,408	\$ 7,283
Purchased and cancelled under Substantial Issuer Bid	—	—	(59,700,974)	(2,000)
Excess of redemption proceeds over stated capital per Substantial Issuer Bid	—	—	—	1,628
Share issuance – Qualifying Holdco Alternative per Substantial Issuer Bid	—	—	595,747,641	2,306
Cancellation of Shares – Qualifying Holdco Alternative per Substantial Issuer Bid	—	—	(595,747,641)	(3,610)
Purchased and cancelled under Normal Course Issuer Bid	—	—	(2,000,000)	(66)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid	—	—	—	53
Exercised and issued under stock option plan	571,920	18	1,242,752	39
Balance, end of year	927,853,106	\$ 5,651	927,281,186	\$ 5,633

Preferred Shares

On November 4, 2020, the Company announced that it did not intend to exercise its rights to redeem the 8,524,422 then outstanding Series N, Non-Cumulative 5-Year Rate Reset First Preferred Shares (Series N Shares) and the 1,475,578 then outstanding Series O, Non-Cumulative Floating Rate First Preferred Shares (Series O Shares) on December 31, 2020. As a result and subject to certain conditions set out in the terms and conditions attached to the shares, holders of Series N Shares had the right to convert all or any of their Series N Shares into Series O Shares, and holders of Series O Shares had the right to convert all or any of their Series O Shares into Series N Shares, on a one-for-one basis on December 31, 2020.

On December 17, 2020, the Company announced that holders of 59,830 Series N Shares elected to convert their shares into Series O Shares, and that holders of 547,303 Series O Shares elected to convert their shares into Series N Shares. After taking into account all shares tendered for conversion, the Company determined that there would be less than 1,000,000 Series O Shares outstanding on December 31, 2020. As a result and in accordance with the terms and conditions attached to the shares, no Series N Shares were converted into Series O Shares and all remaining Series O Shares were automatically converted into Series N Shares on a one-for-one basis on December 31, 2020. Following the automatic conversion, Lifeco has 10,000,000 Series N Shares and no Series O Shares issued and outstanding. The Series N Shares carry an annual fixed non-cumulative dividend rate of 1.749% up to but excluding December 31, 2025 (2.176% up to but excluding December 31, 2020) and are redeemable at the option of the Company on December 31, 2025 and on December 31 every five years thereafter for \$25.00 per share plus all declared and unpaid dividends up to but excluding the date of redemption. Prior to conversion, the Series O Shares carried a floating non-cumulative dividend rate equal to the relevant Government of Canada Treasury Bill rate plus 1.30%.

Notes to Consolidated Financial Statements

19. Share Capital (cont'd)

The Series F, 5.90% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for \$25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series G, 5.20% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for \$25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series H, 4.85% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for \$25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series I, 4.50% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for \$25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series L, 5.65% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for \$25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series M, 5.80% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for \$25.00 per share, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series P, 5.40% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for \$25.00 per share plus a premium if redeemed prior to March 31, 2021, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series Q, 5.15% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for \$25.00 per share plus a premium if redeemed prior to September 30, 2021, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series R, 4.80% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for \$25.00 per share plus a premium if redeemed prior to December 31, 2021, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series S, 5.25% Non-Cumulative First Preferred Shares are redeemable at the option of the Company for \$25.00 per share plus a premium if redeemed prior to June 30, 2023, together with all declared and unpaid dividends up to but excluding the date of redemption.

The Series T, 5.15% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after June 30, 2022 for \$25.00 per share plus a premium if redeemed prior to June 30, 2026, together with all declared and unpaid dividends up to but excluding the date of redemption.

Common Shares

Normal Course Issuer Bid

On January 17, 2020, the Company announced a normal course issuer bid commencing January 22, 2020 and terminating January 21, 2021 to purchase for cancellation up to but not more than 20,000,000 of its common shares at market prices.

As a result of the COVID-19 pandemic impact on markets, on March 13, 2020, OSFI set expectations that Canadian banks and insurers should suspend share buybacks until further notice.

On March 4, 2019, the Company announced a substantial issuer bid (the Offer) pursuant to which the Company offered to purchase for cancellation up to \$2,000 of its common shares from shareholders for cash. The Offer commenced on March 8, 2019 and expired on April 12, 2019. On April 17, 2019, the Company purchased and subsequently cancelled 59,700,974 common shares under the Offer at a price of \$33.50 per share for an aggregate purchase price of \$2,000. The excess paid over the average carrying value under the Offer was \$1,628 and was recognized as a reduction to accumulated surplus. Transaction costs of \$3 were incurred in connection with the Offer and charged to accumulated surplus.

As part of the substantial issuer bid, Power Financial Corporation (Power Financial) and IGM participated in the Offer. IGM tendered its Lifeco shares proportionately. Power Financial tendered a portion of its Lifeco common shares on a proportionate basis and all remaining Lifeco common shares on a non-proportionate basis and this did not impact Power Financial's voting control of the Company. Power Financial and IGM effected their tender offers through a Qualifying Holdco Alternative, which the Company also offered to other shareholders, to assist them in achieving certain Canadian tax objectives. Under the Qualifying Holdco Alternative, the Corporation issued and subsequently cancelled 595,747,641 shares which resulted in a net decrease in share capital of \$1,304 with a corresponding increase in accumulated surplus.

During the year ended December 31, 2020, the Company did not purchase any common shares under the current normal course issuer bid (2,000,000 during the year ended December 31, 2019, under the previous normal course issuer bid).

Subsequent Event

On January 25, 2021, the Company announced a normal course issuer bid (NCIB) commencing January 27, 2021 and terminating January 26, 2022 to purchase for cancellation up to but not more than 20,000,000 of its common shares at market prices. The Company does not currently intend to engage in share repurchases that reduce its outstanding shares while OSFI maintains its expectation that the institutions it regulates suspend share buybacks. However, the Company may use the renewed NCIB for other purposes permitted by the Toronto Stock Exchange or, when OSFI no longer maintains its expectation or circumstances otherwise change, to acquire common shares to mitigate the dilutive effect of issuing shares under the Company's Stock Option Plan and for other capital management purposes.

Notes to Consolidated Financial Statements

20. Earnings Per Common Share

The following provides the reconciliation between basic and diluted earnings per common share:

	2020	2019
Earnings		
Net earnings	\$ 3,076	\$ 2,492
Preferred share dividends	(133)	(133)
Net earnings – common shareholders	\$ 2,943	\$ 2,359
Number of common shares		
Average number of common shares outstanding	927,675,108	946,003,629
Add: Potential exercise of outstanding stock options	109,974	522,755
Average number of common shares outstanding – diluted basis	927,785,082	946,526,384
Basic earnings per common share	\$ 3.173	\$ 2.494
Diluted earnings per common share	\$ 3.172	\$ 2.493
Dividends per common share	\$ 1.752	\$ 1.652

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 implementing and monitoring the capital plan.

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

The target level of capitalization for the Company and its subsidiaries is assessed by considering various factors such as the probability of falling below the minimum regulatory capital requirements in the relevant operating jurisdiction, the views expressed by various credit rating agencies that provide financial strength and other ratings to the Company, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of the Company with a high degree of confidence.

Notes to Consolidated Financial Statements

21. Capital Management (cont'd)

(b) Regulatory Capital

In Canada, OSFI has established a regulatory capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries.

The Life Insurance Capital Adequacy Test (LICAT) Ratio compares the regulatory capital resources of a company to its required capital, defined by OSFI, as the aggregate of all defined capital requirements. The total capital resources are provided by the sum of Available Capital, Surplus Allowance and Eligible Deposits.

The following provides a summary of the LICAT information and ratios for Canada Life:

	2020	2019
Tier 1 Capital	\$ 11,593	\$ 11,952
Tier 2 Capital	4,568	3,637
Total Available Capital	16,161	15,589
Surplus Allowance & Eligible Deposits	14,226	12,625
Total Capital Resources	\$ 30,387	\$ 28,214
Required Capital	\$ 23,607	\$ 20,911
Total LICAT Ratio (OSFI Supervisory Target = 100%)⁽¹⁾	129%	135%

(1) Total Ratio (%) = (Total Capital Resources / Required Capital)

For entities based in Europe, the local solvency capital regime is the Solvency II basis. At December 31, 2020 and December 31, 2019, all European regulated entities met the capital and solvency requirements as prescribed under Solvency II.

GWL&A is subject to the risk-based capital regulatory regime in the U.S. 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, 2020 and December 31, 2019, the Company maintained capital levels above the minimum local regulatory requirements in each of its foreign operations.

22. Share-Based Payments

- (a) The Company has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Lifeco and its affiliates. The Company's Human Resources Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Options granted prior to January 1, 2019 vest over a period of five years. Options granted on or after January 1, 2019 vest 50% three years after the grant date and 50% four years after the grant date. Options have a maximum exercise period of ten years from the grant date. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee. In 2020, the maximum number of Lifeco common shares issuable under the Plan was 65,000,000.

During 2020, 1,932,200 common share options were granted (2,699,500 during 2019). The weighted average fair value of common share options granted during 2020 was \$1.86 per option (\$2.86 in 2019). The fair value of each common share option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2020: dividend yield 5.44% (5.45% in 2019), expected volatility 15.75% (18.63% in 2019), risk-free interest rate 1.10% (1.86% in 2019), and expected life of eight years (eight in 2019).

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

	2020		2019	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	15,378,339	\$ 32.57	14,057,195	\$ 32.49
Granted	1,932,200	32.22	2,699,500	30.33
Exercised	(571,920)	26.71	(1,242,752)	26.71
Forfeited/expired	(339,340)	34.74	(135,604)	34.12
Outstanding, end of year	16,399,279	\$ 32.69	15,378,339	\$ 32.57
Options exercisable at end of year	10,084,559	\$ 32.94	9,653,016	\$ 32.32

The weighted average share price at the date of exercise of stock options for the year ended December 31, 2020 was \$32.59 (\$32.29 in 2019).

Compensation expense due to the Plan transactions accounted for as equity-settled share-based payments of \$4 after-tax in 2020 (\$5 after-tax in 2019) has been recognized in the Consolidated Statements of Earnings.

The following summarizes information on the ranges of exercise prices including weighted average remaining contractual life at December 31, 2020:

Exercise price ranges	Outstanding			Exercisable		
	Options	Weighted average remaining contractual life	Weighted average exercise price	Options	Weighted average exercise price	Expiry
\$27.16 – \$36.87	652,320	0.28	30.37	652,320	30.37	2021
\$23.16 – \$36.87	1,229,618	1.28	27.70	1,223,018	27.69	2022
\$27.13 – \$36.87	1,573,700	2.31	31.04	1,573,700	31.04	2023
\$30.28 – \$36.87	1,876,040	3.31	32.86	1,876,040	32.86	2024
\$34.68 – \$36.87	1,670,699	4.18	35.66	1,670,699	35.66	2025
\$34.68 – \$36.87	2,013,822	5.16	34.68	1,640,842	34.68	2026
\$36.87 – \$36.87	1,241,000	6.16	36.87	755,760	36.87	2027
\$32.99 – \$34.21	1,685,780	7.16	34.20	683,780	34.20	2028
\$30.28 – \$32.50	2,524,100	8.16	30.32	8,400	30.28	2029
\$32.22 – \$32.22	1,932,200	9.16	32.22	—	—	2030

22. Share-Based Payments (cont'd)

- (b) To promote greater alignment of interests between the Directors and Lifeco's shareholders, the Company and certain of its subsidiaries have mandatory Deferred Share Unit Plans and/or voluntary Deferred Share Unit Plans (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 must receive 50% of their 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 their annual Board retainer and Board Committee 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 Lifeco common share on the Toronto Stock Exchange (TSX) for the last five trading days of the preceding fiscal quarter. Directors receive additional DSUs for dividends payable on the Company's common shares based on the value of a DSU at the dividend payment date. DSUs are redeemable when an individual ceases to be a Director, or as applicable, an officer or employee of the Company or any of its affiliates by a lump sum cash payment, based on the weighted average trading price per Lifeco common share on the TSX for the last five trading days preceding the date of redemption. In 2020, \$6 in Directors' fees were used to acquire DSUs (\$6 in 2019). At December 31, 2020, the carrying value of the DSU liability is \$49 (\$43 in 2019) recorded within other liabilities.

Certain employees of the Company are entitled to receive DSUs. Under these DSU Plans, certain employees may elect to receive DSUs as settlement of their annual incentive plan or as settlement of PSUs issued under the Company's PSU Plan. In both cases these employees are granted DSUs equivalent to the Company's common shares. Employees receive additional DSUs in respect of dividends payable on the common shares based on the value of the DSUs at the time. DSUs are redeemable when an individual ceases to be an officer or employee of the Company or any of its affiliates, by a lump sum cash payment representing the value of the DSUs at that date. The Company uses the fair-value based method to account for the DSUs granted to employees under the plans. For the year ended December 31, 2020, the Company recognized compensation expense of \$4 (\$7 in 2019) for the DSU Plans recorded in operating and administrative expenses in the Consolidated Statements of Earnings. At December 31, 2020, the carrying value of the DSU liability is \$25 (\$21 in 2019) recorded within other liabilities in the Consolidated Balance Sheets.

- (c) Certain employees of the Company are entitled to receive PSUs. Under the PSU Plan, these employees are granted PSUs equivalent to the Company's common shares vesting over a three-year period. Employees receive additional PSUs in respect of dividends payable on the common shares 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 PSUs granted to employees under the plan. For the year ended December 31, 2020, the Company recognized compensation expense, excluding the impact of hedging, of \$41 (\$59 in 2019) for the PSU Plan recorded in operating and administrative expenses in the Consolidated Statements of Earnings. At December 31, 2020, the carrying value of the PSU liability is \$93 (\$86 in 2019) recorded within other liabilities.
- (d) The Company's Employee Share Ownership Plan (ESOP) is a voluntary plan where eligible employees can contribute up to 5% of their previous year's eligible earnings to purchase common shares of Lifeco. 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, 2020, the Company recognized compensation expense of \$13 (\$12 in 2019) for the ESOP recorded in operating and administrative expenses in the Consolidated Statements of Earnings.
- (e) Putnam sponsors the Putnam Investments, LLC Equity Incentive Plan. Under the terms of the Equity Incentive Plan, Putnam is authorized to grant or sell Class B Shares of Putnam (the Putnam Class B Shares), subject to certain restrictions, and to grant options to purchase Putnam Class B Shares (collectively, the Awards) to certain senior management and key employees of Putnam at fair value at the time of the award. Fair value is determined under the valuation methodology outlined in the Equity Incentive Plan. Awards vest over a period of up to five years and are specified in the individual's award letter. Holders of Putnam Class B Shares are not entitled to vote other than in respect of certain matters in regards to the Equity Incentive Plan and have no rights to convert their shares into any other securities. The number of Putnam Class B Shares that may be subject to Awards under the Equity Incentive Plan is limited to 16,764,705.

During 2020, Putnam granted 3,092,859 (2,544,222 in 2019) restricted Class B common shares to certain members of senior management and key employees.

Compensation expense recorded for the year ended December 31, 2020 related to restricted Class B common shares and Class B stock options earned was \$31 (\$20 in 2019) and is recorded in operating and administrative expenses in the Consolidated Statements of Earnings.

- (f) Certain employees of PanAgora, a subsidiary of Putnam, are eligible to participate in the PanAgora Management Equity Plan under which Class C Shares of PanAgora and options and stock appreciation rights on Class C Shares of PanAgora may be issued. Holders of PanAgora Class C Shares are not entitled to vote and have no rights to convert their shares into any other securities. The number of PanAgora Class C Shares may not exceed 20% of the equity of PanAgora on a fully exercised and converted basis.

Compensation expense recorded for the year ended December 31, 2020 related to restricted Class C Shares and stock appreciation rights was \$14 in 2020 (\$14 in 2019) and is included as a component of operating and administrative expenses in the Consolidated Statements of Earnings.

23. Pension Plans and Other Post-Employment Benefits***Characteristics, Funding and Risk***

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for eligible employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay; however, these plans are closed to new entrants. Many of the defined benefit pension plans also no longer provide future defined benefit accruals. The Company's defined benefit plan exposure is expected to reduce in future years. Where defined benefit pension accruals continue, 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. Assets supporting the funded pension plans are held in separate trustee pension funds. Obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets.

New hires and active plan participants in defined benefit plans closed to future defined benefit accruals are eligible for defined contribution pension benefits. The defined contribution pension plans provide pension benefits based on accumulated employee and employer contributions. Employer contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

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

The funding policies of the Company's subsidiaries for the funded pension plans require annual contributions equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. Where funded plans have a net defined benefit 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.

Notes to Consolidated Financial Statements

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

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

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans		Other post-employment benefits	
	2020	2019	2020	2019
Change in fair value of plan assets				
Fair value of plan assets, beginning of year	\$ 6,972	\$ 6,484	\$ –	\$ –
Interest income	179	210	–	–
Actual return over (less than) interest income	453	663	–	–
Employer contributions	164	176	17	20
Employee contributions	15	20	–	–
Benefits paid	(285)	(266)	(17)	(20)
Settlements	(11)	(113)	–	–
Administrative expenses	(8)	(10)	–	–
Net transfer out	–	(13)	–	–
Foreign exchange rate changes	123	(179)	–	–
Fair value of plan assets, end of year	\$ 7,602	\$ 6,972	\$ –	\$ –
Change in defined benefit obligation				
Defined benefit obligation, beginning of year	\$ 7,836	\$ 7,189	\$ 388	\$ 370
Current service cost	88	76	2	2
Interest cost	204	234	12	14
Employee contributions	15	20	–	–
Benefits paid	(285)	(266)	(17)	(20)
Plan amendments	–	(1)	–	–
Curtailments and termination benefits ⁽¹⁾	(11)	(3)	–	–
Settlements	(14)	(150)	–	–
Actuarial loss (gain) on financial assumption changes	599	942	28	29
Actuarial loss (gain) on demographic assumption changes	(9)	(20)	1	(5)
Actuarial loss (gain) arising from member experience	18	14	(4)	(1)
Net transfer out	–	(13)	–	–
Foreign exchange rate changes	113	(186)	(1)	(1)
Defined benefit obligation, end of year	\$ 8,554	\$ 7,836	\$ 409	\$ 388
Asset (liability) recognized on the Consolidated Balance Sheets				
Funded status of plans – surplus (deficit)	\$ (952)	\$ (864)	\$ (409)	\$ (388)
Unrecognized amount due to asset ceiling	(29)	(37)	–	–
Asset (liability) recognized on the Consolidated Balance Sheets	\$ (981)	\$ (901)	\$ (409)	\$ (388)
Recorded in:				
Other assets (note 12)	\$ 240	\$ 231	\$ –	\$ –
Other liabilities (note 17)	(1,221)	(1,132)	(409)	(388)
Asset (liability) recognized on the Consolidated Balance Sheets	\$ (981)	\$ (901)	\$ (409)	\$ (388)
Analysis of defined benefit obligation				
Wholly or partly funded plans	\$ 8,213	\$ 7,513	\$ –	\$ –
Wholly unfunded plans	\$ 341	\$ 323	\$ 409	\$ 388

(1) Includes a curtailment gain recognized on sale of shares of IPSI (note 3).

Notes to Consolidated Financial Statements

Under 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 provides a breakdown of the changes in the asset ceiling:

	Defined benefit pension plans	
	2020	2019
Change in asset ceiling		
Asset ceiling, beginning of year	\$ 37	\$ 103
Interest on asset ceiling	1	4
Change in asset ceiling	(11)	(70)
Foreign exchange rate changes	2	–
Asset ceiling, end of year	\$ 29	\$ 37

(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	
	2020	2019	2020	2019
Defined benefit current service cost	\$ 103	\$ 96	\$ 2	\$ 2
Defined contribution current service cost	145	118	–	–
Employee contributions	(15)	(20)	–	–
Employer current service cost	233	194	2	2
Administrative expense	8	10	–	–
Plan amendments	–	(1)	–	–
Curtailments ⁽¹⁾	(11)	(3)	–	–
Settlements	(3)	(37)	–	–
Net interest cost	26	28	12	14
Expense – profit or loss	253	191	14	16
Actuarial (gain) loss recognized	608	936	25	23
Return on assets (greater) less than assumed	(453)	(663)	–	–
Change in the asset ceiling	(11)	(70)	–	–
Re-measurements – other comprehensive (income) loss	144	203	25	23
Total expense (income) including re-measurements	\$ 397	\$ 394	\$ 39	\$ 39

(1) Includes a curtailment gain recognized on sale of shares of IPSI (note 3).

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

	Defined benefit pension plans	
	2020	2019
Equity securities	40%	43%
Debt securities	48%	47%
Real estate	7%	8%
Cash and cash equivalents	5%	2%
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 \$6,871 at December 31, 2020 and \$6,031 at December 31, 2019, of which \$6,790 (\$5,961 at December 31, 2019) are included on the Consolidated Balance Sheets. Plan assets do not include any property occupied or other assets used by the Company.

Notes to Consolidated Financial Statements

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

(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	
	2020	2019	2020	2019
Benefit obligation without future salary increases	\$ 7,893	\$ 7,179	\$ 409	\$ 388
Effect of assumed future salary increases	661	657	—	—
Defined benefit obligation	\$ 8,554	\$ 7,836	\$ 409	\$ 388

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	
	2020	2019	2020	2019
Benefit obligation without future pension increases	\$ 7,918	\$ 7,221	\$ 409	\$ 388
Effect of assumed future pension increases	636	615	—	—
Defined benefit obligation	\$ 8,554	\$ 7,836	\$ 409	\$ 388

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

(iii) Maturity Profile of Plan Membership

	Defined benefit pension plans		Other post-employment benefits	
	2020	2019	2020	2019
Actives	40%	40%	16%	15%
Deferred vesteds	20%	19%	n/a	n/a
Retirees	40%	41%	84%	85%
Total	100%	100%	100%	100%
Weighted average duration of defined benefit obligation	18.7 years	18.5 years	11.9 years	11.7 years

(e) Cash Flow Information

	Pension plans	Other post-employment benefits	Total
Expected employer contributions for 2021:			
Funded (wholly or partly) defined benefit plans	\$ 127	\$ —	\$ 127
Unfunded plans	16	22	38
Defined contribution plans	151	—	151
Total	\$ 294	\$ 22	\$ 316

Notes to Consolidated Financial Statements

(f) Actuarial Assumptions and Sensitivities

(i) Actuarial Assumptions

	Defined benefit pension plans		Other post-employment benefits	
	2020	2019	2020	2019
To determine benefit cost:				
Discount rate – past service liabilities	2.6%	3.4%	3.1%	3.8%
Discount rate – future service liabilities	3.2%	3.8%	3.3%	4.4%
Rate of compensation increase	2.9%	3.0%	–	–
Future pension increases ⁽¹⁾	1.3%	1.4%	–	–
To determine defined benefit obligation:				
Discount rate – past service liabilities	2.1%	2.6%	2.5%	3.1%
Rate of compensation increase	2.9%	2.9%	–	–
Future pension increases ⁽¹⁾	1.0%	1.3%	–	–
Medical cost trend rates:				
Initial medical cost trend rate			4.7%	4.7%
Ultimate medical cost trend rate			4.1%	4.1%
Year ultimate trend rate is reached			2039	2039

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

(ii) Sample Life Expectancies Based on Mortality Assumptions

	Defined benefit pension plans		Other post-employment benefits	
	2020	2019	2020	2019
Sample life expectancies based on mortality assumption:				
Male				
Age 65 in fiscal year	22.7	22.6	22.5	22.4
Age 65 for those age 35 in the fiscal year	24.7	24.6	24.0	23.9
Female				
Age 65 in fiscal year	24.8	24.7	24.7	24.7
Age 65 for those age 35 in the fiscal year	26.7	26.7	26.2	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 \$269 for the defined benefit pension plans and \$14 for other post-employment benefits.

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

	1% increase		1% decrease	
	2020	2019	2020	2019
Defined benefit pension plans:				
Impact of a change to the discount rate	\$ (1,350)	\$ (1,242)	\$ 1,784	\$ 1,630
Impact of a change to the rate of compensation increase	329	311	(291)	(284)
Impact of a change to the rate of inflation	662	598	(569)	(541)
Other post-employment benefits:				
Impact of a change to assumed medical cost trend rates	31	27	(26)	(23)
Impact of a change to the discount rate	(44)	(41)	53	50

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.

Notes to Consolidated Financial Statements

24. Accumulated Other Comprehensive Income

2020									
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized foreign exchange gains (losses) on euro debt designated as hedge of the net investment in foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains on cash flow hedges	Re-measurements on defined benefit pension and other post-employment benefit plans	Revaluation surplus on transfer to investment properties	Total	Non-controlling interest	Shareholders
Balance, beginning of year	\$ 1,236	\$ (57)	\$ 154	\$ 13	\$ (849)	\$ –	\$ 497	\$ (2)	\$ 495
Other comprehensive income (loss)	105	(90)	146	15	(169)	11	18	(54)	(36)
Income tax	(2)	12	(34)	(4)	40	(1)	11	17	28
	103	(78)	112	11	(129)	10	29	(37)	(8)
Balance, end of year	\$ 1,339	\$ (135)	\$ 266	\$ 24	\$ (978)	\$ 10	\$ 526	\$ (39)	\$ 487
2019									
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized foreign exchange gains (losses) on euro debt designated as hedge of the net investment in foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains on cash flow hedges	Re-measurements on defined benefit pension and other post-employment benefit plans		Total	Non-controlling interest	Shareholders
Balance, beginning of year	\$ 1,797	\$ (143)	\$ 22	\$ 11	\$ (670)	\$	\$ 1,017	\$ 28	\$ 1,045
Other comprehensive income (loss)	(561)	100	163	2	(226)		(522)	(33)	(555)
Income tax	–	(14)	(31)	–	47		2	3	5
	(561)	86	132	2	(179)		(520)	(30)	(550)
Balance, end of year	\$ 1,236	\$ (57)	\$ 154	\$ 13	\$ (849)	\$	\$ 497	\$ (2)	\$ 495

25. Related Party Transactions

Power Corporation, which is incorporated and domiciled in Canada, is the Company's parent and has voting control of the Company. The Company is related to other members of the Power Corporation group of companies including IGM, a company in the financial services sector along with its subsidiaries IG Wealth Management, 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 Assurance Company	Canada	Insurance and wealth management	100.00%
Great-West Life & Annuity Insurance Company	United States	Financial services	100.00%
Putnam Investments, LLC	United States	Asset management	100.00% ⁽¹⁾

(1) Lifeco holds 100% of the voting shares and 96.31% of the total outstanding shares.

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

In the normal course of business, Canada Life and Putnam enter into various transactions with related companies which include providing insurance benefits and sub-advisory services to other companies within the Power Corporation group of companies. In all cases, transactions were at market terms and conditions.

During the year, Canada Life provided to and received from IGM and its subsidiaries, a member of the Power Corporation group of companies, certain administrative and information technology services. During the year, IGM notified the Company that it intends to terminate its long-term technology infrastructure related sharing agreement with the Company in the first quarter of 2021 (note 4). Canada Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. In addition, Canada Life provided distribution services to IGM. All transactions were provided at market terms and conditions.

The Company owns 9,200,518 shares, held through Canada Life, representing a 3.86% ownership interest in IGM. The Company uses the equity method to account for its investment in IGM as it exercises significant influence. In 2020, the Company recognized \$25 for the equity method share of IGM net earnings and received dividends of \$21 from its investment in IGM (note 6).

During the year, the Company completed the sale of GLC to Mackenzie. The Company recorded a gain on disposal of \$143 after-tax, net of restructuring and other one-time costs of \$16 after-tax (\$22 pre-tax) (note 3).

During the year, GWL&A completed the acquisition of 100% of the equity of Personal Capital. Prior to the completion of the acquisition, IGM held a 24.8% interest in Personal Capital (approximately 21.7% after giving effect to dilution). The transaction resulted from an auction process conducted by Personal Capital and shareholders other than IGM (note 3).

During the year, the Company and Mackenzie jointly acquired a non-controlling interest in Northleaf, a premier global private equity, private credit and infrastructure fund manager (note 3).

Segregated funds of the Company were invested in funds managed by IG Wealth Management and Mackenzie Investments. The Company also has interests in mutual funds, open-ended investment companies and unit trusts. Some of these funds are managed by related parties of the Company and the Company receives management fees related to these services. All transactions were provided at market terms and conditions (note 14).

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

	2020	2019
3.44%, matures January 26, 2027	\$ 22	\$ 21
6.65%, matures December 13, 2027	17	16
7.45%, matures May 9, 2031	14	14
7.00%, matures December 31, 2032	14	13
4.56%, matures January 25, 2047	25	22
4.115%, matures December 9, 2047	12	10
4.174%, matures July 13, 2048	6	5
Total	\$ 110	\$ 101

During 2020, the Company purchased residential mortgages of \$21 from IGM (\$11 in 2019).

The Company holds investments in Portag3 Ventures Limited Partnership, Portag3 Ventures II Limited Partnership, Wealthsimple Europe S.a.r.l. and other entities which invest in the FinTech sector. These investments were made in partnership with Power Corporation, IGM and, in certain circumstances, outside investors.

The Company provides asset management, employee benefits and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of the Company and its subsidiaries. These transactions were provided at market terms and conditions.

There were no material loans or guarantees issued to or from related parties during 2020 or 2019. There were no significant outstanding loans or guarantees with related parties at December 31, 2020 or December 31, 2019. There were no provisions for uncollectible amounts with related parties at December 31, 2020 or December 31, 2019.

As part of the substantial issuer bid completed in 2019 (note 19), Power Financial and IGM participated in the Offer. IGM tendered its Lifeco shares proportionately. Power Financial tendered a portion of its Lifeco common shares on a proportionate basis and all remaining Lifeco common shares on a non-proportionate basis and this did not impact Power Financial's voting control of the Company. Power Financial and IGM effected their tender offers through a Qualifying Holdco Alternative, which the Company also offered to other shareholders, to assist them in achieving certain Canadian tax objectives.

Notes to Consolidated Financial Statements

25. Related Party Transactions (cont'd)

(c) Key management compensation

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

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

	2020	2019
Salary	\$ 20	\$ 20
Share-based awards	17	14
Option-based awards	6	6
Annual non-equity incentive plan compensation	24	24
Pension value	1	1
Total	\$ 68	\$ 65

26. Income Taxes

(a) Components of the income tax expense

(i) Income tax recognized in Consolidated Statements of Earnings

Current income tax

	2020	2019
Total current income tax	\$ 271	\$ 196

Deferred income tax

	2020	2019
Origination and reversal of temporary differences	\$ (168)	\$ (29)
Effect of changes in tax rates or imposition of new income taxes	7	(11)
Tax expense (recovery) arising from unrecognized tax losses, tax credits or temporary differences	(192)	217
Total deferred income tax	\$ (353)	\$ 177
Total income tax expense (recovery)	\$ (82)	\$ 373

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

	2020	2019
Current income tax expense	\$ 28	\$ 7
Deferred income tax recovery	(39)	(9)
Total	\$ (11)	\$ (2)

(iii) Income tax recognized in Consolidated Statements of Changes in Equity

	2020	2019
Current income tax expense	\$ –	\$ 78
Deferred income tax expense	–	23
Total	\$ –	\$ 101

Notes to Consolidated Financial Statements

(b) The effective income tax rate reported in the Consolidated Statements of Earnings varies from the combined Canadian federal and provincial income tax rate of 26.5% for the following items:

	2020		2019	
Earnings before income taxes	\$	3,072	\$	2,880
Combined basic Canadian federal and provincial tax rate		814		778
		26.50%		27.00%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income ⁽¹⁾		(332)		(166)
		(10.81)		(5.76)
Operations outside of Canada subject to a lower average foreign tax rate		(375)		(315)
		(12.21)		(10.93)
Impact of rate changes on deferred income taxes		7		(11)
		0.23		(0.38)
(Recognition) de-recognition of deferred tax assets associated with prior year tax losses		(197)		199
		(6.41)		6.91
Other ⁽²⁾		1		(112)
		0.03		(3.89)
Total income tax expense (recovery) and effective income tax rate	\$	(82)	\$	373
		(2.67)%		12.95%

(1) In 2020, a \$64 tax benefit from the non-taxable gains on the sale of the shares of GLC and IPSI reduced the effective income tax rate by 2.08 points (note 3).

(2) In 2019, a \$101 tax benefit due to the resolution of an outstanding issue with a foreign tax authority reduced the effective income tax rate by 3.51 points.

(c) Composition and changes in net deferred income tax assets are as follows:

	2020						
	Insurance and investment contract liabilities	Portfolio investments	Losses carried forward	Intangible assets	Tax credits	Other	Total
Balance, beginning of year	\$ (999)	\$ (536)	\$ 1,056	\$ (542)	\$ 311	\$ 287	\$ (423)
Recognized in Statements of Earnings	375	(237)	238	(63)	(25)	65	353
Recognized in Statements of Comprehensive Income	—	(12)	—	—	—	51	39
Recognized in Statements of Changes in Equity	—	—	—	—	—	—	—
Acquired in business acquisitions	300	—	107	(73)	—	7	341
Foreign exchange rate changes and other	4	19	10	8	(1)	(21)	19
Balance, end of year	\$ (320)	\$ (766)	\$ 1,411	\$ (670)	\$ 285	\$ 389	\$ 329

	2019 ⁽¹⁾						
	Insurance and investment contract liabilities	Portfolio investments	Losses carried forward	Intangible assets	Tax credits	Other	Total
Balance, beginning of year	\$ (1,379)	\$ (350)	\$ 1,357	\$ (496)	\$ 364	\$ 275	\$ (229)
Recognized in Statements of Earnings	352	(164)	(245)	(59)	(45)	(16)	(177)
Recognized in Statements of Comprehensive Income	—	(24)	—	—	—	33	9
Recognized in Statements of Changes in Equity	(20)	—	—	—	—	(3)	(23)
Acquired in business acquisitions	—	—	(1)	(1)	—	—	(2)
Foreign exchange rate changes and other	48	2	(55)	14	(8)	(2)	(1)
Balance, end of year	\$ (999)	\$ (536)	\$ 1,056	\$ (542)	\$ 311	\$ 287	\$ (423)

(1) Due to a change in presentation, the Company reclassified the composition of net deferred income tax assets. The reclassifications had no impact on the equity or net earnings of the Company (note 32).

Notes to Consolidated Financial Statements

26. Income Taxes (cont'd)

	2020	2019
Recorded on Consolidated Balance Sheets:		
Deferred tax assets	\$ 975	\$ 693
Deferred tax liabilities	(646)	(1,116)
Total	\$ 329	\$ (423)

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, 2020 are recoverable.

At December 31, 2020, the Company has recognized a deferred tax asset of \$1,411 (\$1,056 at December 31, 2019) on tax loss carryforwards totaling \$8,264, of which \$6,579 expire between 2021 and 2040 while \$1,685 have no expiry date. The Company will realize this benefit in future years through a reduction in current income taxes payable.

One U.S. subsidiary has had a history of losses. The subsidiary has a net deferred income tax asset balance of \$561 (U.S. \$442) as at December 31, 2020, comprised principally of net operating losses and future deductions related to goodwill. During the year ended December 31, 2020, management revised its estimates of future taxable profits to reflect the impact of the completion of the U.S. acquisitions of Personal Capital and MassMutual (note 3) and as a result, recognized a deferred tax asset of \$192 (U.S. \$151) related to losses that had previously been de-recognized in 2019. The deferred income tax asset increase resulted in a recovery to income tax expense of \$196 (U.S. \$151) in the Consolidated Statements of Earnings. In 2019, the deferred income tax asset decrease resulted in a charge to income tax expense of \$199 (U.S. \$151). Management has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated U.S. income tax return will generate sufficient taxable income to utilize the unused U.S. losses and deductions.

The Company has not recognized a deferred tax asset of \$37 (\$231 in 2019) on tax loss carryforwards totaling \$188 (\$1,252 in 2019). Of this amount, \$92 expire between 2021 and 2040 while \$96 have no expiry date. In addition, the Company has not recognized a deferred tax asset of \$21 (\$16 in 2019) on other temporary differences of \$99 (\$78 in 2019) associated with investments in subsidiaries, branches, and associates.

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

	2020	2019
Salaries and other employee benefits	\$ 3,716	\$ 3,474
General and administrative	1,554	1,541
Interest expense on leases	22	22
Amortization of fixed assets	129	125
Depreciation of right-of-use assets	71	69
Total	\$ 5,492	\$ 5,231

28. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end-user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 8 discloses 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 \$211 as at December 31, 2020 (\$156 at December 31, 2019).

(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.

	2020				
	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Swaps	\$ 3,688	\$ 331	\$ 43	\$ 333	\$ 90
Futures – long	9	–	–	–	–
Futures – short	194	–	–	–	–
Options purchased	221	–	1	1	–
	4,112	331	44	334	90
Foreign exchange contracts					
Cross-currency swaps	15,186	388	1,004	1,237	315
Forward contracts	5,079	57	72	125	10
	20,265	445	1,076	1,362	325
Other derivative contracts					
Equity contracts	727	43	46	86	7
Futures – long	17	–	–	–	–
Futures – short	682	1	–	–	–
Other forward contracts	4,318	9	394	403	38
	5,744	53	440	489	45
Total	\$ 30,121	\$ 829	\$ 1,560	\$ 2,185	\$ 460
	2019				
	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Swaps	\$ 3,179	\$ 197	\$ 38	\$ 206	\$ 60
Futures – long	12	–	–	–	–
Futures – short	17	–	–	–	–
Options purchased	244	–	1	1	–
	3,452	197	39	207	60
Foreign exchange contracts					
Cross-currency swaps	13,039	209	899	997	266
Forward contracts	2,573	43	47	76	7
	15,612	252	946	1,073	273
Other derivative contracts					
Equity contracts	74	–	4	4	–
Futures – long	13	–	–	–	–
Futures – short	774	–	–	–	–
Other forward contracts	1,709	2	94	94	9
	2,570	2	98	98	9
Total	\$ 21,634	\$ 451	\$ 1,083	\$ 1,378	\$ 342

Notes to Consolidated Financial Statements

28. 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:

	2020				Total estimated fair value
	Notional Amount			Total	
	1 year or less	Over 1 year to 5 years	Over 5 years		
Derivatives not designated as accounting hedges					
Interest rate contracts					
Swaps	\$ 325	\$ 770	\$ 2,565	\$ 3,660	\$ 281
Futures – long	6	3	–	9	–
Futures – short	190	4	–	194	–
Options purchased	41	166	14	221	–
	562	943	2,579	4,084	281
Foreign exchange contracts					
Cross-currency swaps	896	3,068	11,222	15,186	(783)
Forward contracts	3,689	–	–	3,689	32
	4,585	3,068	11,222	18,875	(751)
Other derivative contracts					
Equity contracts	626	–	–	626	18
Futures – long	17	–	–	17	–
Futures – short	682	–	–	682	(4)
Other forward contracts	4,318	–	–	4,318	8
	5,643	–	–	5,643	22
Fair value hedges					
Foreign exchange forward contracts	74	–	–	74	3
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	28	28	14
Other derivative contracts					
Equity contracts	–	101	–	101	24
Net investment hedges					
Foreign exchange forward contracts	786	530	–	1,316	15
Total	\$ 11,650	\$ 4,642	\$ 13,829	\$ 30,121	\$ (392)

Notes to Consolidated Financial Statements

	2019				
	Notional Amount				Total estimated fair value
	1 year or less	Over 1 year to 5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Swaps	\$ 185	\$ 653	\$ 2,312	\$ 3,150	\$ 161
Futures – long	9	3	–	12	–
Futures – short	10	7	–	17	–
Options purchased	35	184	25	244	–
	239	847	2,337	3,423	161
Foreign exchange contracts					
Cross-currency swaps	299	2,395	10,345	13,039	(1,135)
Forward contracts	1,334	–	–	1,334	15
	1,633	2,395	10,345	14,373	(1,120)
Other derivative contracts					
Equity contracts	74	–	–	74	–
Futures – long	13	–	–	13	–
Futures – short	774	–	–	774	(2)
Other forward contracts	1,709	–	–	1,709	2
	2,570	–	–	2,570	–
Fair value hedges					
Foreign exchange forward contracts	74	–	–	74	2
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	29	29	10
Net investment hedges					
Foreign exchange forward contracts	641	524	–	1,165	17
Total	\$ 5,157	\$ 3,766	\$ 12,711	\$ 21,634	\$ (930)

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.

Equity total return swaps are used to manage exposure to fluctuations in the total return of common shares related to deferred compensation arrangements. Total return swaps require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges.

The ineffective portion of the cash flow hedges during 2020, which includes interest rate contracts, foreign exchange contracts, and equity total return swap contracts, and the anticipated net gains (losses) reclassified out of accumulated other comprehensive income within the next twelve months is nil. The maximum time frame for which variable cash flows are hedged is 50 years.

29. Legal Provisions and Contingent Liabilities

The Company and its subsidiaries are from time-to-time subject to legal actions, including arbitrations and class actions. Provisions are established if, in management's judgment, it is probable a payment will be required and the amount of the payment can be reliably estimated. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the 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.

Subsidiaries of the Company in the United States are defendants in legal actions relating to the costs and features of certain of their retirement or fund products. Management believes the claims are without merit and will be vigorously defending these actions. Based on the information presently known these actions will not have a material adverse effect on the consolidated financial position of the Company.

30. Commitments

(a) Letters of Credit

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities is U.S. \$2,107 of which U.S. \$1,791 were issued as of December 31, 2020.

The Capital and Risk Solutions segment 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 \$1,990 as at December 31, 2020, with \$1,874 maturing within one year, \$95 maturing within two years and \$21 maturing within three years.

(c) 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 \$1,421 (\$1,456 at December 31, 2019) 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, \$75 (\$75 at December 31, 2019) of assets of the Company for the purpose of providing collateral for the counterparty.

Notes to Consolidated Financial Statements

31. Segmented Information

The operating segments of the Company are Canada, United States, Europe, Capital and Risk Solutions and Lifeco Corporate. These segments 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 segments are derived principally from interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses.

Transactions between operating segments occur at market terms and conditions and have been eliminated upon consolidation.

The Company has a capital allocation model to measure the performance of the operating segments. The impact of the capital allocation model is included in the segmented information presented below.

(a) Consolidated Net Earnings

	2020					
	Canada	United States	Europe	Capital and Risk Solutions	Lifeco Corporate	Total
Income						
Total net premiums	\$ 13,188	\$ 6,773	\$ 3,651	\$ 19,407	\$ –	\$ 43,019
Net investment income						
Regular net investment income	3,050	1,278	1,313	320	2	5,963
Changes in fair value through profit or loss	2,633	938	1,669	459	–	5,699
Total net investment income	5,683	2,216	2,982	779	2	11,662
Fee and other income	1,756	2,769	1,366	11	–	5,902
	20,627	11,758	7,999	20,197	2	60,583
Benefits and expenses						
Paid or credited to policyholders	15,572	8,413	5,184	19,318	–	48,487
Other ⁽¹⁾	3,545	2,870	1,686	239	28	8,368
Financing charges	127	110	25	12	10	284
Amortization of finite life intangible assets	104	83	51	–	–	238
Restructuring and integration expenses	92	42	–	–	–	134
Earnings (loss) before income taxes	1,187	240	1,053	628	(36)	3,072
Income taxes	54	(158)	33	(1)	(10)	(82)
Net earnings (loss) before non-controlling interests	1,133	398	1,020	629	(26)	3,154
Non-controlling interests	76	7	1	(6)	–	78
Net earnings (loss)	1,057	391	1,019	635	(26)	3,076
Preferred share dividends	114	–	19	–	–	133
Net earnings (loss) before capital allocation	943	391	1,000	635	(26)	2,943
Impact of capital allocation	127	(11)	(87)	(21)	(8)	–
Net earnings (loss) – common shareholders	\$ 1,070	\$ 380	\$ 913	\$ 614	\$ (34)	\$ 2,943

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

Notes to Consolidated Financial Statements

31. Segmented Information (cont'd)

	2019					
	Canada	United States	Europe ⁽¹⁾	Capital and Risk Solutions ⁽¹⁾	Lifeco Corporate	Total
Income						
Total net premiums	\$ 13,505	\$ (9,659)	\$ 3,198	\$ 17,466	\$ –	\$ 24,510
Net investment income						
Regular net investment income	2,785	1,785	1,285	306	–	6,161
Changes in fair value through profit or loss	3,157	1,371	1,851	567	–	6,946
Total net investment income	5,942	3,156	3,136	873	–	13,107
Fee and other income	1,766	3,767	1,539	9	–	7,081
	21,213	(2,736)	7,873	18,348	–	44,698
Benefits and expenses						
Paid or credited to policyholders	16,268	(5,932)	5,026	17,729	–	33,091
Other ⁽²⁾	3,510	2,780	1,637	217	22	8,166
Financing charges	128	118	24	12	3	285
Amortization of finite life intangible assets	92	85	47	–	–	224
Restructuring expenses	–	52	–	–	–	52
Earnings (loss) before income taxes	1,215	161	1,139	390	(25)	2,880
Income taxes	149	205	31	(6)	(6)	373
Net earnings (loss) before non-controlling interests	1,066	(44)	1,108	396	(19)	2,507
Non-controlling interests	13	3	(1)	–	–	15
Net earnings (loss)	1,053	(47)	1,109	396	(19)	2,492
Preferred share dividends	114	–	19	–	–	133
Net earnings (loss) before capital allocation	939	(47)	1,090	396	(19)	2,359
Impact of capital allocation	112	(14)	(86)	(10)	(2)	–
Net earnings (loss) – common shareholders	\$ 1,051	\$ (61)	\$ 1,004	\$ 386	\$ (21)	\$ 2,359

(1) See comparative figures (note 32).

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

The revenue by source currency for Capital and Risk Solutions:

	Capital and Risk Solutions	
	2020	2019
Revenue		
United States	\$ 16,118	\$ 16,227
United Kingdom	1,807	1,376
Other	2,272	745
Total revenue	\$ 20,197	\$ 18,348

Notes to Consolidated Financial Statements

(b) Consolidated Total Assets and Liabilities

	2020				
	Canada	United States	Europe	Capital and Risk Solutions	Total
Assets					
Invested assets	\$ 87,732	\$ 54,522	\$ 50,793	\$ 5,951	\$ 198,998
Goodwill and intangible assets	5,625	5,729	3,037	—	14,391
Other assets	3,661	30,347	10,151	8,910	53,069
Investments on account of segregated fund policyholders	90,680	117,982	125,370	—	334,032
Total	\$ 187,698	\$ 208,580	\$ 189,351	\$ 14,861	\$ 600,490
	2020				
	Canada	United States	Europe	Capital and Risk Solutions	Total
Liabilities					
Insurance and investment contract liabilities	\$ 81,556	\$ 76,793	\$ 48,243	\$ 11,455	\$ 218,047
Other liabilities	7,731	8,004	4,767	894	21,396
Investment and insurance contracts on account of segregated fund policyholders	90,680	117,982	125,370	—	334,032
Total	\$ 179,967	\$ 202,779	\$ 178,380	\$ 12,349	\$ 573,475
	2019				
	Canada	United States	Europe ⁽¹⁾	Capital and Risk Solutions ⁽¹⁾	Total
Assets					
Invested assets	\$ 81,179	\$ 32,768	\$ 48,845	\$ 5,995	\$ 168,787
Goodwill and intangible assets	5,560	1,990	2,834	—	10,384
Other assets	3,953	19,421	8,465	9,135	40,974
Investments on account of segregated fund policyholders	85,612	31,433	113,977	—	231,022
Total	\$ 176,304	\$ 85,612	\$ 174,121	\$ 15,130	\$ 451,167
	2019				
	Canada	United States	Europe ⁽¹⁾	Capital and Risk Solutions ⁽¹⁾	Total
Liabilities					
Insurance and investment contract liabilities	\$ 74,939	\$ 43,689	\$ 45,662	\$ 11,887	\$ 176,177
Other liabilities	8,448	5,035	3,653	1,289	18,425
Investment and insurance contracts on account of segregated fund policyholders	85,612	31,433	113,977	—	231,022
Total	\$ 168,999	\$ 80,157	\$ 163,292	\$ 13,176	\$ 425,624

(1) See comparative figures (note 32).

The assets by source currency for Capital and Risk Solutions:

	Capital and Risk Solutions	
	2020	2019
Assets		
United Kingdom	\$ 7,572	\$ 8,261
United States	6,667	6,365
Other	622	504
Total assets	\$ 14,861	\$ 15,130

32. Comparative Figures

Effective January 1, 2020, the Company divided its Europe operating segment into two operating segments: Europe, and Capital and Risk Solutions. The adjustment had no impact on the net earnings or cash flows of the Company. The realignment resulted in a change to comparative figures within these operating segments (notes 8, 11, 13 and 31).

During the year, the Company reclassified certain comparative figures for presentation adjustments (note 26). The reclassifications had no impact on the equity or net earnings of the Company.

Independent Auditor's Report

To the Shareholders of Great-West Lifeco Inc.

Opinion

We have audited the consolidated financial statements of Great-West Lifeco Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Insurance Contract Liabilities – Refer to Notes 2 and 13 to the financial statements

Key Audit Matter Description

The Company has insurance contract liabilities representing a significant portion of its total liabilities. Insurance contract liabilities are determined in accordance with generally accepted actuarial practices established by the Canadian Institute of Actuaries using the Canadian Asset Liability Method (CALM). This method requires the use of complex valuation models incorporating projections of cash inflows and outflows using the best estimate of future experience together with a margin for adverse deviation.

While there are many assumptions which management makes, the assumptions with the greatest estimation uncertainty are those related to mortality, including the impact, if any, of the COVID-19 pandemic, and policyholder behaviour. These assumptions required significant auditor attention in specific circumstances where (i) there is limited Company and industry experience data, and (ii) the historical experience may not be a good indicator of the future. Auditing of certain valuation models, mortality and policyholder behaviour assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve actuarial specialists.

How the Key Audit Matter was Addressed in the Audit

Our audit procedures related to certain valuation models, mortality and policyholder behaviour assumptions included the following, among others:

- With the assistance of actuarial specialists, tested the appropriateness of certain valuation models used in the estimation process by:
 - Calculating an independent estimate of the insurance contract liability for a sample of insurance policies and comparing the results to the Company's estimate.
 - Testing the accuracy of certain valuation models for changes in key assumptions.
- With the assistance of actuarial specialists, tested the reasonableness of mortality and policyholder behaviour assumptions, by:
 - Evaluating whether management's assumptions were determined in accordance with actuarial principles and practices under the Canadian actuarial standards of practice.
 - Testing experience studies and other inputs used in the determination of the mortality and policyholder behaviour assumptions.
 - Analyzing management's interpretation and judgment of its experience study results and emerging claims experience, evaluating triggers and drivers for revisions of assumptions, assessing reasonable possible alternative assumptions, and considering industry and other external sources of benchmarking where applicable.

Independent Auditor's Report (cont'd)

Income Taxes – Refer to Notes 2 and 26 to the financial statements

Key Audit Matter Description

The Company recognizes deferred income taxes for the tax expected to be payable or recoverable on differences arising between the financial statement and tax basis of assets and liabilities, and is recorded at enacted or substantively enacted tax rates in effect for the years in which the differences are expected to be realized. The Company applies judgment in assessing the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections. Certain of the Company's subsidiaries have had a history of losses and have a deferred income tax asset comprised principally of net operating losses. The Company has concluded that through the use of certain tax planning opportunities, it is probable that sufficient taxable income will be generated to utilize certain of the unused losses.

The determination of the recoverability of the Company's deferred tax assets in the Company's subsidiaries required management to make judgements related to the assessment of management's planned implementation of tax strategies. In addition, management makes significant estimates and assumptions in projecting future taxable income, specifically the revenue growth rates and projected expense margins and in the determination of whether the deferred tax asset will be realized. Auditing these judgements required a high degree of auditor judgment as the estimations made by management contain significant measurement uncertainty. This resulted in an increased extent of audit effort, including the need to involve income tax and other specialists.

How the Key Audit Matter was Addressed in the Audit

Our audit procedures related to the tax strategies, revenue growth rates and projected expense margins, and the determination of whether the deferred tax assets in the Company's subsidiaries will be realized included the following, among others:

- With the assistance of income tax specialists, analyzed the reasonableness of management's projected future taxable income available to determine whether the models properly factored in the impact of the tax planning strategies.
- Tested the reasonableness of the revenue growth rates and projected expense margins used to project future taxable income that was available to realize the deferred tax asset by:
 - Assessing the key factors influencing management's revenue growth rates and projected expense margins used in the projections through both market and internally entity specific driven evidence.
 - Performing a retrospective analysis of projected future taxable income against actual results from prior years.
- With the assistance of income tax and other specialists, evaluated the proposed tax planning strategies considered in the recoverability analysis to assess whether the deferred tax asset will be realized.

Massachusetts Mutual Life Insurance Acquisition - Insurance Contract Liabilities – Refer to Notes 2 and 3 to the financial statements

Key Audit Matter Description

The Company purchased the retirement services business of Massachusetts Mutual Life Insurance Company ("MassMutual") via indemnity reinsurance and recognized an estimate of the initial fair value of net assets acquired, including insurance contract liabilities. The estimate of the assumed insurance contract liabilities required the use of complex valuation models incorporating projections of cash inflows and outflows using the best estimate of future experience together with a margin for adverse deviation.

While there were a number of estimates and assumptions required to determine the initial fair value of the insurance contract liabilities, the assumptions with the greatest estimation uncertainty are those related to the policyholder behaviour assumptions. Auditing of the valuation models and policyholder behaviour assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve actuarial specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related the valuation models and policyholder behaviour assumptions as it relates to the acquired insurance contract liabilities included the following, among others:

- With the assistance of actuarial specialists, tested the appropriateness of the valuation models used in the estimation process by calculating an independent estimate of the insurance contract liability for a sample of insurance policies and comparing the results to the Company's estimate.
- With the assistance of actuarial specialists, tested the reasonableness of policyholder behaviour assumptions, by:
 - Evaluating whether management's assumptions were determined in accordance with actuarial principles and practices.
 - Analyzing management's interpretation and judgments based on the relative inputs, considering reasonable possible alternative assumptions, and considering industry and other external sources of benchmarking where applicable.
 - Testing the inputs used in the determination of the policyholder behaviour assumptions, including an assessment of the use of experience studies and other data from the Company's comparable lines of business in the determination of the MassMutual assumptions.

Independent Auditor's Report

Personal Capital Corporation Acquisition - Intangible Assets – Refer to Notes 2 and 3 to the financial statements

Key Audit Matter Description

The Company acquired 100% of the equity of Personal Capital Corporation ("Personal Capital") and recognized the assets acquired and the liabilities assumed based on the estimated fair value, including customer relationships and brand intangible assets. The transaction includes a contingent consideration earn-out which is based on the achievement of growth in assets under management ("AUM"). The determination of the fair value of the customer relationships and brand is based on a discounted cash flow model and required management to make significant estimates and assumptions related to forecasted future revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") margins, and discount rates.

While there are several estimates and assumptions that are required to determine the fair value of the contingent consideration earn-out and the customer relationships and brand, the estimates and assumptions with the highest degree of subjectivity are forecasted future revenue and EBITDA margins, forecasted growth in AUM and discount rates. This required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to forecasted future revenue and EBITDA margins, forecasted growth in AUM, and discount rates used to determine the fair value of the contingent consideration and of the customer relationships and brand intangible assets included the following, among others:

- Evaluated the reasonableness of forecasted revenue and EBITDA margin, and forecasted growth in AUM by comparing the forecasts to:
 - Actual historical results of the acquired entity.
 - Actual results of the acquired entity after acquisition.
 - Underlying analyses detailing business strategies and growth plans.
- Evaluated the reasonableness of forecasted future revenue and forecasted growth in AUM based on reputable third-party reports, comparable company performance, internal and external customer data, and comparing those to the estimates used by management.
- With the assistance of fair value specialists, evaluated the reasonableness of the discount rates used by testing the source information underlying the determination of the discount rates and developing a range of independent estimates and comparing those to the discount rate selected by management.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Independent Auditor's Report (cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Paul Stauch.

/s/ **Deloitte LLP**

Chartered Professional Accountants

Winnipeg, Manitoba
February 10, 2021

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IGM Financial Inc.

PART C

Management's Discussion and Analysis

PAGE C 2

Financial Statements and Notes

PAGE C 75

Please note that the bottom of each page in Part C contains two different page numbers. A page number with the prefix "C" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by IGM Financial Inc.

The attached documents concerning IGM Financial Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Forward-Looking Statements. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

management's discussion and analysis

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and the financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the years ended December 31, 2020 and 2019 and should be read in conjunction with the audited Consolidated Financial Statements. Commentary in the MD&A as at and for the year ended December 31, 2020 is as of February 11, 2021.

Basis of Presentation and Summary of Accounting Policies

The Consolidated Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars (Note 2 of the Consolidated Financial Statements).

Principal Holders of Voting Shares

As at December 31, 2020, Power Corporation of Canada (PCC) and Great-West Lifeco Inc. (Lifeco), a subsidiary of PCC, held directly or indirectly 62.1% and 3.9%, respectively, of the outstanding common shares of IGM Financial.

Forward-looking Statements

Certain statements in this report, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect IGM Financial's current expectations. Forward-looking statements are provided to assist the reader in understanding the Company's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future. Readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Company, as well as the outlook for North American and international economies, for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. While the Company considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

A variety of material factors, many of which are beyond the Company's and its subsidiaries' control, affect the operations, performance and results of the Company, and

its subsidiaries, and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, operational and reputational risks, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, outbreaks of disease or pandemics (such as COVID-19), the Company's ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned that the foregoing list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not place undue reliance on forward-looking statements.

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

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

Non-IFRS Financial Measures and Additional IFRS Measures

Net earnings available to common shareholders, which is an additional measure in accordance with IFRS, may be subdivided into two components consisting of:

- Adjusted net earnings available to common shareholders; and
- Other items, which include the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful.

"Adjusted net earnings available to common shareholders", "adjusted diluted earnings per share" (EPS) and "adjusted return on average common equity" (ROE) are non-IFRS financial measures which are used to provide management and investors with additional measures to assess earnings performance. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before interest and taxes" (EBIT), "adjusted earnings before interest and taxes" (Adjusted EBIT), "earnings before interest, taxes, depreciation and amortization before sales commissions" (EBITDA before sales commissions), and "earnings before interest, taxes, depreciation and amortization after sales commissions" (EBITDA after sales commissions) are also non-IFRS financial measures. EBIT, Adjusted EBIT, EBITDA before

sales commissions and EBITDA after sales commissions are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. EBITDA before sales commissions excludes all mutual fund sales commissions and is comparable to prior periods. EBITDA after sales commissions includes all sales commissions and highlights aggregate cash flows. Other items of a non-recurring nature, or that could make the period-over-period comparison of results from operations less meaningful, are further excluded to arrive at EBITDA before sales commissions and EBITDA after sales commissions. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before income taxes" and "net earnings available to common shareholders" are additional IFRS measures which are used to provide management and investors with additional measures to assess earnings performance. These measures are considered additional IFRS measures as they are in addition to the minimum line items required by IFRS and are relevant to an understanding of the entity's financial performance.

Refer to the appropriate reconciliations of non-IFRS financial measures to reported results in accordance with IFRS in Tables 1, 4, 5 and 6.

Summary of Consolidated Operating Results

IGM Financial Inc. (TSX:IGM) is a leading wealth and asset management company supporting financial advisors and the clients they serve in Canada, and institutional investors throughout North America, Europe and Asia. The Company operates through a number of operating subsidiaries and also holds a number of strategic investments that provide benefits to these subsidiaries while furthering the Company's growth prospects. The Company's principle operating subsidiaries are wealth manager IG Wealth Management and asset manager Mackenzie Investments. The Company also operates through wealth manager Investment Planning Counsel and has strategic investments in Great-West Lifeco Inc. (Lifeco), China Asset Management Co., Ltd. (China AMC), Northleaf Capital Group Ltd. (Northleaf) and Wealthsimple Financial Corp. (Wealthsimple) as described more fully later in this MD&A.

In the third quarter of 2020, the Company realigned its financial reporting and related disclosures to reflect its current reportable segments of Wealth Management, Asset Management and Strategic Investments and Other. These segments are described later in this MD&A.

IGM Financial's assets under management and advisement were \$240.0 billion as at December 31, 2020, the highest level in the history of the Company, compared with \$190.0 billion at December 31, 2019, as detailed in Table 8. This increase of 26.3% consists of \$12.5 billion of client investment returns, \$7.1 billion of client net flows and \$30.3 billion of net business acquisitions. Average total assets under management and advisement for the year ended December 31, 2020 were \$191.2 billion compared to \$183.5 billion in 2019. Average total assets under management and advisement for the fourth quarter of 2020 were \$202.2 billion compared to \$187.4 billion in the fourth quarter of 2019.

Total assets under management were \$214.0 billion at December 31, 2020, the highest level in the history of the Company, compared with \$166.8 billion at December 31, 2019. Average total assets under management for the year ended December 31, 2020 were \$168.5 billion compared to \$161.1 billion in 2019. Average total assets under management for the fourth quarter of 2020 were \$177.6 billion compared to \$164.5 billion in the fourth quarter of 2019.

Net earnings available to common shareholders for the year ended December 31, 2020 were \$764.4 million or \$3.21 per share compared to net earnings available to common shareholders of \$746.7 million or \$3.12 per share in 2019. Net earnings available to common shareholders for the three months ended December 31, 2020 were \$229.1 million or 96 cents per share compared to net earnings available to common shareholders of \$191.6 million or 80 cents per share for the comparative period in 2019.

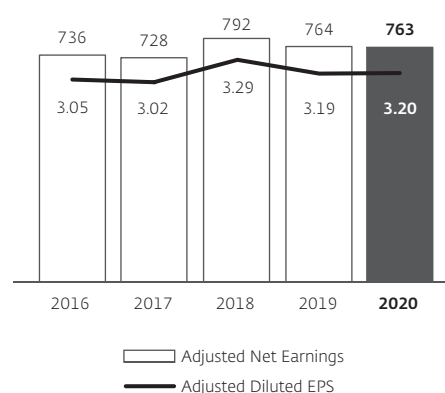
Adjusted net earnings available to common shareholders, excluding other items outlined below, for the year ended December 31, 2020 were \$762.9 million or \$3.20 per share compared to adjusted net earnings available to common shareholders of \$763.9 million or \$3.19 per share in 2019. Adjusted net earnings available to common shareholders, excluding other items outlined below, for the three months ended December 31, 2020 were \$204.3 million or 86 cents per share compared to adjusted net earnings available to common shareholders of \$200.8 million or 84 cents per share in 2019.

Other items for the year ended December 31, 2020 consisted of:

- A gain on the sale of the Quadrus Group of Funds net of acquisition costs, of \$21.4 million after-tax (\$25.2 million pre-tax), recorded in the fourth quarter.

Adjusted Net Earnings and Adjusted Net Earnings per Share

For the financial year (\$ millions, except per share amounts)



Adjusted net earnings and adjusted net earnings per share excluded the following after-tax amounts:

- 2016 – a reduction in income tax estimates related to certain tax filings.
- 2017 – charges related to restructuring and other, a favourable revaluation of the Company's pension plan obligation, charges representing the Company's proportionate share in Great-West Lifeco Inc.'s one-time charges and restructuring provision.
- 2018 – charges related to restructuring and other and the premium paid on the early redemption of debentures.
- 2019 – the Company's proportionate share in Great-West Lifeco Inc.'s one-time charges.
- 2020 – the gain on sale of Personal Capital, gain on sale of Quadrus Group of Funds net of acquisition costs, the Company's proportionate share of associate's adjustments and restructuring and other.

- The Company's proportionate share in Great-West Lifeco Inc.'s after-tax adjustments related to the revaluation of a deferred tax asset less certain restructuring and transaction costs, of \$3.4 million, recorded in the fourth quarter.
- A gain on the sale of the investment in Personal Capital Corporation of \$31.4 million after-tax (\$37.2 million pre-tax), recorded in the third quarter.
- Restructuring and other charges of \$54.7 million after-tax (\$74.5 million pre-tax), recorded in the third quarter, resulting from our ongoing multi-year transformation initiatives and efforts to enhance our operational effectiveness and also from the acquisition of GLC Asset Management Group Ltd. (GLC) and other changes to our investment management teams. This included activities to improve efficiency and capabilities by leveraging the scale and expertise of scaled providers through outsourcing partnerships, as well as process automation initiatives relating to key internal processes. During the third quarter, IGM Financial announced outsourcing initiatives with Soroc for IT end-user services, with IBM for hosting of mainframe solutions, with Google for cloud-based data storage and other services, and also announced an agreement with CAPCO for process automation. As a result of these initiatives, the Company recorded costs relating to restructuring and downsizing activities as well as impairment of redundant internally generated software assets. During the third quarter, the Company also incurred severance and other charges relating to the acquisition of GLC as well as other personnel changes.

Other items for the year ended December 31, 2019 consisted of:

- A one-time charge of \$9.2 million, recorded in the fourth quarter, which represented the Company's proportionate share in Great-West Lifeco Inc.'s after-tax adjustments related to the revaluation of a deferred tax asset, restructuring costs and the net gain on the Scottish Friendly transaction.
- A one-time charge of \$8.0 million, recorded in the second quarter, which represented the Company's proportionate share in Great-West Lifeco Inc.'s after-tax loss on the sale of its United States individual life insurance and annuity business.

Shareholders' equity was \$5.0 billion at December 31, 2020, compared to \$4.5 billion at December 31, 2019. Return on average common equity based on adjusted net earnings for the year ended December 31, 2020 was 16.1%, compared with 17.2% for the comparative period in 2019. The quarterly dividend per common share was 56.25 cents in 2020, unchanged from the end of 2019.

2020 DEVELOPMENTS

ACQUISITIONS

GLC Asset Management Group Ltd. (GLC)

On December 31, 2020, the Company's subsidiary, Mackenzie, acquired all of the common shares of GLC, a wholly-owned subsidiary of Great-West Lifeco Inc. (Lifeco), for cash consideration of \$185.0 million.

GLC has \$37 billion in assets under management and a 50-year history of providing investment advisory services to a range of mutual funds, individual and group segregated funds offered by and through Canada Life.

In a separate transaction, Lifeco's subsidiary, Canada Life Assurance Company (Canada Life) acquired the fund management contracts relating to private label Quadrus Group of Funds (QGOF) from Mackenzie for total cash consideration of \$30 million. Mackenzie was previously the manager and trustee of the QGOF. Subsequent to the sale, Mackenzie continues to provide investment and administration services to the QGOF.

Northleaf Capital Group Ltd. (Northleaf)

On October 28, 2020, the Company's subsidiary, Mackenzie, together with Great-West Lifeco Inc. (Lifeco), acquired a non-controlling interest in Northleaf through an acquisition vehicle 80% owned by Mackenzie and 20% owned by Lifeco for cash consideration of \$241 million and up to an additional \$245 million in consideration at the end of five years subject to the business achieving exceptional growth in certain performance measures over the period. Any additional consideration will be recognized as expense over the five year period based on the fair value of the expected payment, which is revalued at each reporting period date.

The acquisition vehicle acquired a 49.9% non-controlling voting interest and a 70% economic interest in Northleaf. Mackenzie and Lifeco have an obligation and right to purchase the remaining economic and voting interest in Northleaf commencing in approximately five years and extending into future periods.

Northleaf is a global private equity, private credit and infrastructure fund manager, headquartered in Toronto, with more than 150 employees across seven offices in Canada, the U.S., UK and Australia. Northleaf's assets under management, including invested capital and uninvested commitments, were \$14.6 billion at December 31, 2020.

The financial results of Northleaf are recorded in the Company's Strategic Investments and Other segment.

Greenchip Financial Corporation (Greenchip)

On December 22, 2020, Mackenzie acquired 100% of Greenchip, a Canadian firm focused exclusively on the environmental economy since 2007. The acquisition adds \$618 million in assets under management, of which \$435 million was sub-advisory mandates to the Mackenzie Global Environmental Equity Fund.

INVESTMENT IN WEALTHSIMPLE FINANCIAL CORP. (WEALTHSIMPLE)

On October 14, 2020, Wealthsimple announced a \$114 million equity fundraising led by TCV, one of the largest growth equity investors focused on technology, along with Greylock, Meritech, Two Sigma Ventures and existing investor Allianz X. The new investors have an ownership stake of 7.4%. The purchase price associated with this fundraising valued the common equity of Wealthsimple at \$1.5 billion (\$1.4 billion pre-money valuation).

IGM Financial is the largest shareholder in Wealthsimple and holds, directly and indirectly, a 36% interest. As a result of this valuation, the fair value of the Company's investment increased by \$298 million and is recorded at \$550 million at December 31, 2020. The change in fair value was recognized through Other Comprehensive Income.

SALE OF PERSONAL CAPITAL CORPORATION (PERSONAL CAPITAL)

In the third quarter, the Company sold its equity interest in Personal Capital to a subsidiary of Lifeco, Empower Retirement, for proceeds of \$232.8 million (USD \$176.2 million) and up to an additional USD \$24.6 million in consideration subject to Personal Capital achieving certain target growth objectives.

As a result of the sale, the Company has derecognized its investment in Personal Capital and recorded an accounting gain of \$37.2 million (\$31.4 million net of tax) in Net investment income and other in the Consolidated Financial Statements.

The Company's economic gain, based on the cost of its investment in Personal Capital of \$189.1 million, was approximately \$43.7 million (\$37.9 million net of tax).

COVID-19

Governments worldwide have enacted emergency measures to combat the spread of a novel strain of coronavirus (COVID-19). These measures, which include the implementation of travel

bans, closing of non-essential businesses, self-imposed quarantine periods and social distancing, have caused significant volatility and weakness in global equity markets and material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

Volatility in global equity markets in 2020 has been significant. In the first quarter of 2020, the S&P TSX Composite index declined by 21.6%, increased by 16.0% in the second quarter, increased by 3.9% in the third quarter, and in the fourth quarter increased by 8.1%. Year to date returns were positive 2.2%. U.S. equity markets, as measured by the S&P 500 index, for those same periods declined by 20.0%, increased by 20.0%, increased by 8.5%, and increased by 11.7% for a year to date return of positive 16.3%. Our clients experienced an average investment return of negative 11.7% in the first quarter, positive returns of 9.7% in the second quarter of 2020, positive returns of 4.2% in the third quarter, positive returns of 5.5% in the fourth quarter, and year to date positive returns of 6.5%. IGM Financial's assets under management and advisement increased from \$196.4 billion at September 30, 2020 to \$240.0 billion at December 31, 2020, which represents an increase of 6.7%, excluding \$30.3 billion in net business acquisitions in the fourth quarter of GLC and Greenchip. Excluding these acquisitions, assets under management and advisement have increased by 10.3% from \$190.0 billion at December 31, 2019, despite the volatility in global equity markets during the year. The volatility of IGM Financial's assets under management and advisement in 2020 has not been as severe as overall market changes, reflecting the diversified nature of IGM Financial's overall asset mix.

Even though progress has been made on the deployment of vaccines, the duration and full impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. As a result, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

In response to the impact of COVID-19, the Company continues to support our employees, advisors, clients and communities with actions as described in the following table.

COVID-19 COMPANY RESPONSE – SUPPORTING OUR EMPLOYEES, ADVISORS, CLIENTS AND COMMUNITIES

Employees & Advisors	Clients	Communities
a) Safety: Rapid move to work from home model for virtually all employees and company advisors. Investments in hardware and supported people to take desktops home b) Financial peace of mind: Commitment to no COVID-19 job loss across IGM in 2020 Special allowance for non-executive employees to cover work from home costs Allowance for the few essential workers still travelling to the office c) Work-life balance: Accommodations for childcare and flexible workdays d) Mental and Physical Health: Enhanced employee benefits e) Advisor support to work with clients	a) Enhanced communication: Increased support on managing market volatility, the value of advice and portfolio manager commentary b) Taking advantage of digitization and technology to work with clients: At IG, increased utilization of digital forms, e-signatures Increased use of virtual client interactions at IG and IPC At Mackenzie, increased utilization of virtual wholesaling with advisors c) Financial hardship support: Ongoing delivery of financial planning, helping clients access government programs where needed, mortgage deferral program at IG	a) \$1 million joint contribution: along with Power Corporation of Canada and Canada Life, support crisis relief efforts in our communities – Local and national food banks – Vulnerable people – Small businesses b) IG Wealth Management will strengthen its support of United Way and their work with isolated seniors c) Mackenzie Investments Charitable Foundation will increase its support for women and children in community shelters d) Free financial planning advice to small and medium business owners

Foundations to Support our Stakeholders

- a) **Executive COVID-19 Committee:** Leadership decision making and direction setting, as well as coordination of divisional support
- b) **Business continuity and emergency preparedness:** We plan for and test our ability to securely operate in a variety of scenarios including work-at-home capabilities

COVID-19 has the current and ongoing potential to expose the Company to a number of risks inherent in our business activities. These include: liquidity risk; credit risk; business risk and risks related to assets under management; operational risk; governance, oversight and strategic risk; regulatory developments; and people risk. These risks are discussed in further detail in the Risk Management section of this MD&A.

REPORTING CHANGES

In the third quarter of 2020, the Company realigned its reportable segments and made disclosure enhancements to its Consolidated Statements of Earnings to better characterize the Company's business lines, improve transparency into the key drivers of the business, and facilitate appropriate valuation of each segment. Prior period comparative information has been restated to reflect the disclosure enhancements and realigned segments.

These changes have no impact on the reported earnings of the Company.

REPORTABLE SEGMENTS

The new segments as described below reflect the Company's internal financial reporting and performance measurement (Tables 4, 5 and 6):

- **Wealth Management** – reflects the activities of operating companies that are principally focused on providing financial planning and related services to Canadian households. This segment includes the activities of IG Wealth Management and Investment Planning Counsel. These firms are retail distribution organizations who serve Canadian households through their securities dealers, mutual fund dealers and other subsidiaries licensed to distribute financial products and services. A majority of the revenues of this segment are derived from providing financial advice and distributing financial products and services to Canadian households. This segment also includes the investment management activities of these organizations, including mutual fund management and discretionary portfolio management services.

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(\$ millions)	THREE MONTHS ENDED			TWELVE MONTHS ENDED	
	2020 DEC. 31	2020 SEP. 30	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31
Adjusted net earnings available to common shareholders – Non-IFRS measure	\$ 204.3	\$ 214.2	\$ 200.8	\$ 762.9	\$ 763.9
Gain on sale of Personal Capital, net of tax	–	31.4	–	31.4	–
Gain on sale of Quadrus Group of Funds net of acquisition costs, net of tax	21.4	–	–	21.4	–
Proportionate share of associate's adjustments	3.4	–	–	3.4	–
Restructuring and other, net of tax	–	(54.7)	–	(54.7)	–
Proportionate share of associate's one-time charges	–	–	(9.2)	–	(17.2)
Net earnings available to common shareholders – IFRS	\$ 229.1	\$ 190.9	\$ 191.6	\$ 764.4	\$ 746.7
Adjusted net earnings per share⁽¹⁾ available to common shareholders – Non-IFRS measure	\$ 0.86	\$ 0.90	\$ 0.84	\$ 3.20	\$ 3.19
Gain on sale of Personal Capital, net of tax	–	0.13	(0.04)	0.13	–
Gain on sale of Quadrus Group of Funds net of acquisition costs, net of tax	0.09	–	–	0.09	–
Proportionate share of associate's adjustments	0.01	–	–	0.02	–
Restructuring and other, net of tax	–	(0.23)	–	(0.23)	–
Proportionate share of associate's one-time charges	–	–	–	–	(0.07)
Net earnings per share⁽¹⁾ available to common shareholders – IFRS	\$ 0.96	\$ 0.80	\$ 0.80	\$ 3.21	\$ 3.12
EBITDA before sales commissions – Non-IFRS measure	\$ 326.4	\$ 336.3	\$ 336.5	\$ 1,226.4	\$ 1,294.0
Sales-based commissions paid	(41.3)	(30.0)	(45.2)	(139.5)	(165.1)
EBITDA after sales commissions – Non-IFRS measure	285.1	306.3	291.3	1,086.9	1,128.9
Sales-based commissions paid subject to amortization	36.1	25.1	23.5	117.6	67.2
Amortization of capitalized sales commissions	(10.6)	(9.5)	(6.5)	(36.4)	(22.4)
Amortization of capital, intangible and other assets	(21.5)	(21.5)	(19.9)	(83.5)	(79.5)
Adjusted earnings before interest and income taxes – Non-IFRS measure	289.1	300.4	288.4	1,084.6	1,094.2
Interest expense ⁽²⁾	(27.9)	(27.9)	(27.8)	(110.6)	(108.4)
Adjusted earnings before income taxes – Non-IFRS measure	261.2	272.5	260.6	974.0	985.8
Gain on sale of Personal Capital	–	37.2	–	37.2	–
Gain on sale of QGOF net of acquisition costs	25.2	–	–	25.2	–
Proportionate share of associate's adjustments	3.4	–	–	3.4	–
Restructuring and other	–	(74.5)	–	(74.5)	–
Proportionate share of associate's one-time charges	–	–	(9.2)	–	(17.2)
Earnings before income taxes	289.8	235.2	251.4	965.3	968.6
Income taxes	(60.5)	(44.3)	(59.8)	(200.7)	(219.7)
Non-controlling interest	(0.2)	–	–	(0.2)	–
Perpetual preferred share dividends	–	–	–	–	(2.2)
Net earnings available to common shareholders – IFRS	\$ 229.1	\$ 190.9	\$ 191.6	\$ 764.4	\$ 746.7

(1) Diluted earnings per share.

(2) Interest expense includes interest on long-term debt and interest on leases.

- **Asset Management** – reflects the activities of operating companies primarily focused on providing investment management services, and represents the operations of Mackenzie Investments. Investment management services are provided to a suite of investment funds that are distributed through third party dealers and financial advisors, and through institutional advisory mandates to financial institutions, pensions and other institutional investors.
- **Strategic Investments and Other** – primarily represents the key strategic investments made by the Company, including China Asset Management Co., Ltd., Great-West Lifeco Inc., Northleaf Capital Group Ltd., Wealthsimple Financial Corp., and Portag3 Ventures LPs, as well as unallocated capital. Investments are classified in this segment (as opposed to the Wealth Management or Asset Management segment) when warranted due to different market segments, growth profiles or other unique characteristics.

At the consolidated IGM Financial level, the change in reportable segments has no effect on financial results. The key differences include the financial presentation changes and segment changes noted above. In addition, the Asset Management segment includes assets under management that are managed for other IGM businesses in the Wealth Management segment.

Assets under Management and Advisement (AUM&A)

represents the consolidated AUM and AUA of IGM Financial. In the Wealth Management segment, AUM is a component part of AUA. All instances where the asset management segment is providing investment management services or distributing its products through the Wealth Management segment are eliminated in our reporting such that there is no double-counting of the same client savings held at IGM operating companies.

Assets under Advisement (AUA) are the key driver of the Wealth Management segment. AUA are savings and investment products held within client accounts of our Wealth Management segment operating companies.

Assets under Management (AUM) are the key driver of the Asset Management segment. AUM are a secondary driver of revenues and expenses within the Wealth Management segment in relation to its investment management activities. AUM are client assets where we provide investment management services, and include investment funds where we are the fund manager, investment advisory mandates to institutions, and other client accounts where we have discretionary portfolio management responsibilities.

COMPARISON OF IGM FINANCIAL REPORTABLE SEGMENTS

Segments Effective Third Quarter 2020 ⁽¹⁾	Previous Segments
Wealth Management includes: • IG Wealth Management • Investment Planning Counsel Inc.	IG Wealth Management
Asset Management includes: • Mackenzie Investments • Results include the \$76 billion sub-advisory relationship⁽²⁾ with IG Wealth Management and Investment Planning Counsel	Mackenzie Investments
Strategic Investments and Other includes: • Great-West Lifeco Inc. • China AMC • Northleaf • Wealthsimple • Portag3 Ventures • Unallocated capital	Corporate and Other included: • Great-West Lifeco Inc. • China AMC • Wealthsimple • Portag3 Ventures • Personal Capital Corporation • Net investment income not allocated to the IG Wealth Management or Mackenzie segments • Investment Planning Counsel Inc.

(1) Prior period segment reporting and disclosure has been restated for comparison purposes.

(2) Previously recorded as a cost-sharing arrangement.

FINANCIAL PRESENTATION

The financial presentation changes include the reclassification of certain revenues and expenses to provide greater alignment with the key drivers of business activity and to reflect our emphasis on business growth and operational efficiency. The changes to the categories are as follows:

- **Wealth management revenue** – revenues earned by the Wealth Management segment for providing financial planning, investment advisory and related financial services. Revenues include financial advisory fees, investment management and related administration fees, distribution revenue associated with insurance and banking products and services, and net investment income and other revenue relating to mortgage lending activities.
- **Asset management revenue** – revenues earned by the Asset Management segment related to investment management advisory and administrative services.
- **Dealer compensation** – asset-based and sales-based compensation paid to dealers by the Asset Management segment.
- **Advisory and business development expenses** – expenses incurred on activities directly associated with providing financial planning services to clients of the Wealth Management segment. Expenses include compensation, recognition and other support provided to our financial advisors, field management, product & planning specialists; expenses associated with facilities, technology and training relating to our financial advisors and specialists; other business development activities including direct marketing and advertising; and wholesale distribution activities performed by the Asset Management segment. A significant component of these expenses vary directly with levels of assets under management or advisement, business development measures including sales and client acquisition, and the number of advisor and client relationships.
- **Operations and support expenses** – expenses associated with business operations, including technology and business processes; in-house investment management and product shelf management; corporate management and support functions. These expenses primarily reflect compensation and technology and other service provider expenses.
- **Sub-advisory expenses** – reflects fees relating to investment management services provided by third party or related party investment management organizations. These fees typically are variable with the level of assets under management. These fees include investment advisory services performed for the Wealth Management segment by the Asset Management segment.

The reconciliations of IGM's current presentation of its revenues and expenses to prior period presentation are included in Tables 2 and 3.

Certain items reflected in Tables 4, 5 and 6 are not allocated to segments:

- *Interest expense* – represents interest expense on long-term debt and interest expense on leases. The change in interest expense for the twelve month period resulted from the impact of the issuance of \$250 million 4.206% debentures on March 20, 2019.
- *2020 Gain on sale of the Quadrus Group of Funds net of acquisition costs* – \$25.2 million (\$21.4 million after-tax), recorded in the fourth quarter.
- *2020 Proportionate share of associate's adjustments* – \$3.4 million which represented the Company's proportionate share in Great-West Lifeco Inc.'s after-tax adjustments, recorded in the fourth quarter, related to the revaluation of a deferred tax asset less certain restructuring and transaction costs.
- *2020 Gain on sale of Personal Capital* – \$37.2 million (\$31.4 million after-tax), recorded in the third quarter, resulting from the sale of the Company's investment in Personal Capital.
- *2020 Restructuring and other* – \$74.5 million (\$54.7 million after-tax), recorded in the third quarter, resulting from our ongoing multi-year transformation initiatives and efforts to enhance our operational effectiveness and also from the acquisition of GLC and other changes to our investment management teams. This included activities to improve efficiency and capabilities by leveraging the scale and expertise of scaled providers through outsourcing partnerships, as well as process automation initiatives relating to key internal processes. During the quarter, IGM announced outsourcing initiatives with Soroc for IT end-user services, with IBM for hosting of mainframe solutions, with Google for cloud-based data storage and other services, and also announced an agreement with CAPCO for process automation. As a result of these initiatives, the Company is recording costs relating to restructuring and downsizing activities as well as impairment of redundant internally generated software assets. During the quarter, the Company also incurred severance and other charges relating to the acquisition of GLC as well as other personnel changes.
- *2019 Proportionate share of associate's one-time charges* – consisted of:
 - \$9.2 million representing the Company's proportionate share in Great-West Lifeco Inc.'s after-tax adjustments, recorded in the fourth quarter, related to the revaluation of a deferred tax asset, restructuring costs and the net gain on the Scottish Friendly transaction.
 - \$8.0 million representing the Company's proportionate share in Great-West Lifeco Inc.'s after-tax loss, recorded in the second quarter, on the sale of its United States individual life insurance and annuity business.

TABLE 2: STATEMENT OF EARNINGS RECONCILIATION

THREE MONTHS ENDED DECEMBER 31, 2020

(\$ millions)

PRIOR PRESENTATION		MANAGEMENT AND ADVISORY FEES		ADMINISTRATION FEES	DISTRIBUTION FEES	NET INVESTMENT INCOME AND OTHER	PROPORTIONATE SHARE OF ASSOCIATES' EARNINGS	COMMISSION EXPENSE	NON- COMMISSION EXPENSE	INTEREST EXPENSE	EARNINGS BEFORE INCOME TAXES								
		\$	599.8	\$	103.3	\$	93.8	\$	49.8	\$	43.5	\$	288.8	\$	283.7	\$	27.9	\$	289.8
CURRENT PRESENTATION																			
Revenues																			
Wealth management	\$	594.2		408.9		76.1		92.6		16.6									
Asset management		216.3		190.9		27.2		1.2											
Dealer compensation		(74.3)																	
Net asset management		142.0		190.9		27.2		1.2											
Net investment income and other ⁽¹⁾		33.2						33.2											
Proportionate share of associates' earnings ⁽²⁾		43.5								43.5									
		812.9		599.8		103.3		93.8		49.8		43.5		(74.3)		(3.0)			
Expenses																			
Advisory and business development		283.1												214.5		68.6			
Operations and support ⁽³⁾		193.8														193.8			
Sub-advisory		18.3														18.3			
Interest		27.9																27.9	
		523.1												214.5		280.7		27.9	
Earnings before income taxes	\$	289.8																	

(1) Net investment income includes the gain on sale of Quadrus Group of funds of \$30.0 million.

(2) Proportionate share of associates' earnings includes one time adjustments of \$3.4 million.

(3) Operations and support includes acquisition costs of \$4.8 million.

- Income taxes – changes in the effective tax rates are shown in Table 7.

Tax planning may result in the Company recording lower levels of income taxes. Management monitors the status of its income tax filings and regularly assesses the overall adequacy of its provision for income taxes and, as a result, income taxes recorded in prior years may be adjusted in the current year. The effect of changes in management's best estimates

reported in adjusted net earnings is reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.

- Perpetual preferred share dividends – represents the dividends declared on the Company's 5.90% non-cumulative first preferred shares. The decrease in the preferred share dividends reflects the redemption of the \$150.0 million in preferred shares on April 30, 2019.

TABLE 3: STATEMENT OF EARNINGS RECONCILIATION

TWELVE MONTHS ENDED DECEMBER 31, 2020

(\$ millions)

PRIOR PRESENTATION		MANAGEMENT AND ADVISORY FEES	ADMINISTRATION FEES	DISTRIBUTION FEES	NET INVESTMENT INCOME AND OTHER	PROPORTIONATE SHARE OF ASSOCIATES' EARNINGS	COMMISSION EXPENSE	NON- COMMISSION EXPENSE	INTEREST EXPENSE	EARNINGS BEFORE INCOME TAXES
		\$ 2,282.9	\$ 403.4	\$ 346.3	\$ 129.4	\$ 150.4	\$ 1,088.3	\$ 1,148.2	\$ 110.6	\$ 965.3
CURRENT PRESENTATION										
Revenues										
Wealth management	\$ 2,259.6	1,564.7	301.9	341.8	51.2					
Asset management	812.9	718.2	101.5	4.5				(11.3)		
Dealer compensation	(283.1)						(283.1)			
Net Asset management	529.8	718.2	101.5	4.5			(283.1)	(11.3)		
Net investment income and other ⁽¹⁾	78.2				78.2					
Proportionate share of associates' earnings ⁽²⁾	150.4					150.4				
	3,018.0	2,282.9	403.4	346.3	129.4	150.4	(283.1)	(11.3)		
Expenses										
Advisory and business development	1,040.2						805.2	235.0		
Operations and support ⁽³⁾	830.7							830.7		
Sub-advisory	71.2							71.2		
Interest	110.6								110.6	
	2,052.7						805.2	1,136.9	110.6	
Earnings before income taxes	\$ 965.3									

(1) Net investment income includes the gain on sale of Personal Capital of \$37.2 million and gain on sale of Quadrus Group of funds of \$30.0 million.

(2) Proportionate share of associates' earnings includes one time adjustments of \$3.4 million.

(3) Operations and support includes restructuring and other charges of \$74.5 million and acquisition costs of \$4.8 million.

TABLE 4: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q4 2020 VS. Q4 2019

THREE MONTHS ENDED (\$ millions)	WEALTH MANAGEMENT		ASSET MANAGEMENT		STRATEGIC INVESTMENTS & OTHER		INTERSEGMENT ELIMINATIONS		TOTAL	
	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31
Revenues										
Wealth management	\$ 598.5	\$ 591.1	\$ –	\$ –	\$ –	\$ –	\$ (4.3)	\$ (4.0)	\$ 594.2	\$ 587.1
Asset management	–	–	242.1	229.6	–	–	(25.8)	(26.2)	216.3	203.4
Dealer compensation expense	–	–	(78.6)	(73.9)	–	–	4.3	4.1	(74.3)	(69.8)
Net asset management	–	–	163.5	155.7	–	–	(21.5)	(22.1)	142.0	133.6
Net investment income and other	1.0	4.5	1.0	(0.3)	1.1	2.6	0.1	(0.1)	3.2	6.7
Proportionate share of associates' earnings	–	–	–	–	40.1	32.6	–	–	40.1	32.6
	599.5	595.6	164.5	155.4	41.2	35.2	(25.7)	(26.2)	779.5	760.0
Expenses										
Advisory and business development	254.8	248.6	28.3	22.5	–	–	–	(0.2)	283.1	270.9
Operations and support	113.3	104.2	74.6	77.7	0.9	0.6	0.2	0.1	189.0	182.6
Sub-advisory	42.7	41.5	1.5	2.7	–	–	(25.9)	(26.1)	18.3	18.1
	410.8	394.3	104.4	102.9	0.9	0.6	(25.7)	(26.2)	490.4	471.6
Adjusted earnings before interest and taxes	\$ 188.7	\$ 201.3	\$ 60.1	\$ 52.5	\$ 40.3	\$ 34.6	\$ –	\$ –	289.1	288.4
Interest expense ⁽¹⁾									(27.9)	(27.8)
Gain on sale of Quadrus Group of Funds net of acquisition costs									25.2	–
Proportionate share of associate's adjustments									3.4	–
Proportionate share of associate's one-time charges									–	(9.2)
Earnings before income taxes									289.8	251.4
Income taxes									60.5	59.8
Net earnings									229.3	191.6
Non-controlling interest									(0.2)	–
Net earnings available to common shareholders									\$ 229.1	\$ 191.6
Adjusted net earnings available to common shareholders⁽²⁾									\$ 204.3	\$ 200.8

(1) Interest expense includes interest on long-term debt and interest on leases.

(2) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

TABLE 5: CONSOLIDATED OPERATING RESULTS BY SEGMENT – TWELVE MONTHS ENDED

TWELVE MONTHS ENDED (\$ millions)	WEALTH MANAGEMENT		ASSET MANAGEMENT		STRATEGIC INVESTMENTS & OTHER		INTERSEGMENT ELIMINATIONS		TOTAL	
	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31
Revenues										
Wealth management	\$ 2,276.0	\$ 2,315.2	\$ –	\$ –	\$ –	\$ –	\$ (16.4)	\$ (16.2)	\$ 2,259.6	\$ 2,299.0
Asset management	–	–	913.5	896.5	–	–	(100.6)	(104.2)	812.9	792.3
Dealer compensation expense	–	–	(299.5)	(292.9)	–	–	16.4	15.9	(283.1)	(277.0)
Net asset management	–	–	614.0	603.6	–	–	(84.2)	(88.3)	529.8	515.3
Net investment income and other	2.3	13.6	2.9	4.2	6.0	7.3	(0.2)	(0.3)	11.0	24.8
Proportionate share of associates' earnings	–	–	–	–	147.0	122.4	–	–	147.0	122.4
	2,278.3	2,328.8	616.9	607.8	153.0	129.7	(100.8)	(104.8)	2,947.4	2,961.5
Expenses										
Advisory and business development	960.0	986.5	80.2	79.9	–	–	–	(0.4)	1,040.2	1,066.0
Operations and support	453.7	436.0	293.7	295.2	4.1	2.2	(0.1)	(0.3)	751.4	733.1
Sub-advisory	163.2	161.5	8.7	10.8	–	–	(100.7)	(104.1)	71.2	68.2
	1,576.9	1,584.0	382.6	385.9	4.1	2.2	(100.8)	(104.8)	1,862.8	1,867.3
Adjusted earnings before interest and taxes	\$ 701.4	\$ 744.8	\$ 234.3	\$ 221.9	\$ 148.9	\$ 127.5	\$ –	\$ –	1,084.6	1,094.2
Interest expense ⁽¹⁾									(110.6)	(108.4)
Gain on sale of Personal Capital									37.2	–
Gain on sale of Quadrus Group of Funds net of acquisition costs									25.2	–
Proportionate share of associate's adjustments									3.4	–
Restructuring and other									(74.5)	–
Proportionate share of associate's one-time charges									–	(17.2)
Earnings before income taxes									965.3	968.6
Income taxes									200.7	219.7
Net earnings									764.6	748.9
Non-controlling interest									(0.2)	–
Perpetual preferred share dividends									–	(2.2)
Net earnings available to common shareholders									\$ 764.4	\$ 746.7
Adjusted net earnings available to common shareholders⁽²⁾									\$ 762.9	\$ 763.9

(1) Interest expense includes interest on long-term debt and interest on leases.

(2) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

TABLE 6: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q4 2020 VS. Q3 2020

THREE MONTHS ENDED (\$ millions)	WEALTH MANAGEMENT		ASSET MANAGEMENT		STRATEGIC INVESTMENTS & OTHER		INTERSEGMENT ELIMINATIONS		TOTAL	
	2020 DEC. 31	2020 SEP. 30	2020 DEC. 31	2020 SEP. 30	2020 DEC. 31	2020 SEP. 30	2020 DEC. 31	2020 SEP. 30	2020 DEC. 31	2020 SEP. 30
Revenues										
Wealth management	\$ 598.5	\$ 575.7	\$ –	\$ –	\$ –	\$ –	\$ (4.3)	\$ (4.1)	\$ 594.2	\$ 571.6
Asset management	–	–	242.1	233.1	–	–	(25.8)	(25.7)	216.3	207.4
Dealer compensation expense	–	–	(78.6)	(75.5)	–	–	4.3	4.2	(74.3)	(71.3)
Net asset management	–	–	163.5	157.6	–	–	(21.5)	(21.5)	142.0	136.1
Net investment income and other	1.0	0.7	1.0	1.1	1.1	0.6	0.1	(0.2)	3.2	2.2
Proportionate share of associates' earnings	–	–	–	–	40.1	43.5	–	–	40.1	43.5
	599.5	576.4	164.5	158.7	41.2	44.1	(25.7)	(25.8)	779.5	753.4
Expenses										
Advisory and business development	254.8	236.5	28.3	16.0	–	–	–	0.1	283.1	252.6
Operations and support	113.3	111.2	74.6	69.7	0.9	1.2	0.2	(0.2)	189.0	181.9
Sub-advisory	42.7	41.7	1.5	2.5	–	–	(25.9)	(25.7)	18.3	18.5
	410.8	389.4	104.4	88.2	0.9	1.2	(25.7)	(25.8)	490.4	453.0
Adjusted earnings before interest and taxes	\$ 188.7	\$ 187.0	\$ 60.1	\$ 70.5	\$ 40.3	\$ 42.9	\$ –	\$ –	289.1	300.4
Interest expense ⁽¹⁾									(27.9)	(27.9)
Gain on sale of Quadrus Group of Funds net of acquisition costs									25.2	–
Proportionate share of associate's adjustments									3.4	–
Gain on sale of Personal Capital									–	37.2
Restructuring and other									–	(74.5)
Earnings before income taxes									289.8	235.2
Income taxes									60.5	44.3
Net earnings									229.3	190.9
Non-controlling interest									(0.2)	–
Net earnings available to common shareholders									\$ 229.1	\$ 190.9
Adjusted net earnings available to common shareholders ⁽²⁾									\$ 204.3	\$ 214.2

(1) Interest expense includes interest on long-term debt and interest on leases.

(2) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

TABLE 7: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			TWELVE MONTHS ENDED	
	2020 DEC. 31	2020 SEP. 30	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31
Income taxes at Canadian federal and provincial statutory rates	26.60 %	26.82 %	26.76 %	26.68 %	26.77 %
Effect of:					
Proportionate share of associates' earnings	(3.29)	(4.50)	(3.43)	(3.71)	(3.31)
Tax loss consolidation ⁽¹⁾	(0.96)	(1.20)	(1.36)	(1.15)	(1.41)
Other items	(0.19)	(0.12)	0.83	(0.11)	0.15
Effective income tax rate – adjusted net earnings	22.16	21.00	22.80	21.71	22.20
Disposition of assets net of acquisition costs	(0.98)	(2.14)	–	(0.82)	–
Proportionate share of associate's adjustments	(0.31)	–	0.99	(0.09)	0.48
Effective income tax rate – net earnings	20.87 %	18.86 %	23.79 %	20.80 %	22.68 %

(1) See Note 26 – Related Party Transactions of the Consolidated Financial Statements included in the 2020 IGM Financial Inc. Annual Report (Annual Financial Statements).

SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT AND ADVISEMENT

Assets under management and advisement were \$240.0 billion at December 31, 2020 compared to \$190.0 billion at December 31, 2019, an increase of 26.3%. Excluding \$30.3 billion in net business acquisitions in the fourth quarter of GLC Asset Management Group Ltd. (GLC) and Greenchip Financial Corp. (Greenchip), assets under management and advisement at December 31, 2020 were up 10.3% from December 31, 2019. Total assets under management were \$214.0 billion at December 31, 2020 compared to \$166.8 billion at December 31, 2019, an increase of 28.3%. Excluding the net business acquisitions, total assets under management were up 10.1%. Changes in assets under management and advisement are detailed in Table 8.

Changes in assets under management for the Wealth Management and Asset Management segments are discussed further in each of their respective Review of the Business sections in the MD&A.

SELECTED ANNUAL INFORMATION

Financial information for the three most recently completed years is included in Table 9.

Net Earnings and Earnings per Share – Except as noted in the reconciliation in Table 9, variations in net earnings and total revenues result primarily from changes in average assets under management and advisement. Assets under management

and advisement were \$170.2 billion in 2018, increased to \$190.0 billion in 2019 and increased to \$240.0 billion in 2020. Increases were driven largely by changes in financial markets during the periods, and in 2020 were primarily due to net business acquisitions of \$30.3 billion. Average total assets under management and advisement for the year ended December 31, 2020 were \$191.2 billion compared to \$183.5 billion in 2019. The impact on earnings and revenues of changes in average total assets under management and advisement and other pertinent items are discussed in the Review of Segment Operating Results sections of the MD&A for both IG Wealth Management and Mackenzie.

Net earnings in future periods will largely be determined by the level of assets under management and advisement which will continue to be influenced by global market conditions.

Dividends per Common Share – Annual dividends per common share were \$2.25 in 2020, unchanged from 2019 and 2018.

SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 10 includes the eight most recent quarters and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.

Changes in average daily investment fund assets under management over the eight most recent quarters, as shown in Table 10, largely reflect the impact of changes in domestic and foreign markets and net sales of the Company.

TABLE 8: ASSETS UNDER MANAGEMENT AND ADVISEMENT

THREE MONTHS ENDED (\$ millions)	WEALTH MANAGEMENT				ASSET MANAGEMENT		INTERCOMPANY ELIMINATIONS ⁽¹⁾		CONSOLIDATED	
	IG WEALTH MANAGEMENT		INVESTMENT PLANNING COUNSEL		MACKENZIE INVESTMENTS					
	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31	2020 DEC. 31	2019 DEC. 31
Gross flows										
Mutual fund gross sales ⁽²⁾⁽³⁾	\$ 2,572	\$ 2,251	\$ 177	\$ 147	\$ 4,501	\$ 2,587	\$ –	\$ –	\$ 7,250	\$ 4,985
Dealer gross inflows	2,938	2,467	1,487	1,150	–	–	–	–	4,425	3,617
Net flows										
Mutual fund net sales ⁽²⁾⁽³⁾	(9)	(247)	(89)	(114)	1,376	18	–	–	1,278	(343)
ETF Net creations	–	–	–	–	372	202	–	–	372	202
Investment fund net sales	(9)	(247)	(89)	(114)	1,748	220	–	–	1,650	(141)
Institutional SMA net sales	–	–	–	–	(75)	(73)	–	–	(75)	(73)
Managed asset net sales	(9)	(247)	(89)	(114)	1,673	147	–	–	1,575	(214)
Other dealer net flows	494	138	338	91	–	–	(186)	(22)	646	207
Total net flows	485	(109)	249	(23)	1,673	147	(186)	(22)	2,221	(7)
TWELVE MONTHS ENDED										
Gross flows										
Mutual fund gross sales ⁽²⁾⁽⁵⁾	\$ 8,987	\$ 8,723	\$ 577	\$ 694	\$ 13,565	\$ 9,886	\$ –	\$ –	\$ 23,129	\$ 19,303
Dealer gross inflows	9,977	9,307	4,760	4,345	–	–	–	–	14,737	13,652
Net flows										
Mutual fund net sales ⁽²⁾⁽⁵⁾	(451)	(1,089)	(307)	(272)	2,956	512	–	–	2,198	(849)
ETF Net creations ⁽⁴⁾	–	–	–	–	1,232	707	–	–	1,232	707
Investment fund net sales	(451)	(1,089)	(307)	(272)	4,188	1,219	–	–	3,430	(142)
Institutional SMA net sales	–	–	–	–	2,062	(1,492)	–	–	2,062	(1,492)
Managed asset net sales	(451)	(1,089)	(307)	(272)	6,250	(273)	–	–	5,492	(1,634)
Other dealer net flows	1,246	309	680	(317)	–	–	(319)	(22)	1,607	(30)
Total net flows	795	(780)	373	(589)	6,250	(273)	(319)	(22)	7,099	(1,664)
Assets under Management and Advisement										
Wealth Management										
AUM	\$ 97,713	\$ 93,161	\$ 5,320	\$ 5,391			\$ –	\$ –	\$ 103,033	\$ 98,552
Other AUA	5,560	3,939	23,998	22,337			(8)	(8)	29,550	26,268
AUA	103,273	97,100	29,318	27,728			(8)	(8)	132,583	124,820
Asset Management										
Mutual funds					\$ 55,462	\$ 60,839			55,462	60,839
ETFs					3,788	2,372			3,788	2,372
Investment funds					59,250	63,211			59,250	63,211
Institutional SMA					51,688	5,046			51,688	5,046
Total ex sub-advisory to Wealth Management					110,938	68,257			110,938	68,257
Sub-advisory to Wealth Management					75,821	73,575			75,821	73,575
Total AUM					186,759	141,832			186,759	141,832
ETFs										
Distributed to third parties					3,788	2,372			3,788	2,372
Held within IGM investment funds					4,663	2,376	(4,663)	(2,376)	–	–
Total ETFs					8,451	4,748	(4,663)	(2,376)	3,788	2,372
Consolidated										
AUM	97,713	93,161	5,320	5,391	186,759	141,832	(75,821)	(73,575)	213,971	166,809
Other AUA	5,560	3,939	23,998	22,337	–	–	(3,579)	(3,050)	25,979	23,226
AUM&A	103,273	97,100	29,318	27,728	186,759	141,832	(79,400)	(76,625)	239,950	190,035

(1) Consolidated results eliminate double counting where business is reflected within multiple segments.

(2) IG Wealth Management and Investment Planning Counsel AUM and net sales include separately managed accounts.

(3) During the fourth quarter of 2020, institutional clients which include Mackenzie mutual funds within their investment offerings made fund allocation changes which resulted in sales of \$625 million and net sales of \$32 million.

(4) ETFs – During the second and third quarters of 2020, Wealthsimple made allocation changes which resulted in \$370 million of purchases in Mackenzie ETFs and \$325 million of redemptions from Mackenzie's ETFs respectively.

(5) During 2020, institutional clients which include Mackenzie mutual funds within their investment offerings made fund allocation changes which resulted in sales of \$1.4 billion and net sales of \$612 million (2019 – sales of \$129 million, net redemptions of \$36 million).

TABLE 9: SELECTED ANNUAL INFORMATION

	2020	2019	2018
Consolidated statements of earnings (\$ millions)			
Revenues			
Wealth management	\$ 2,259.6	\$ 2,299.0	\$ 2,276.6
Net asset management	529.8	515.3	515.5
Net investment income and other	11.0	24.8	20.0
Proportionate share of associates' earnings	147.0	122.4	150.0
	2,947.4	2,961.5	2,962.1
Expenses	1,973.4	1,975.7	1,942.6
	974.0	985.8	1,019.5
Gain on sale of Personal Capital	37.2	–	–
Gain on sale of Quadrus Group of Funds net of acquisition costs	25.2	–	–
Proportionate share of associate's adjustments	3.4	–	–
Restructuring and other	(74.5)	–	(22.7)
Proportionate share of associate's one-time charges	–	(17.2)	–
Premium paid on early redemption of debentures	–	–	(10.7)
Earnings before income taxes	965.3	968.6	986.1
Income taxes	200.7	219.7	210.0
Net earnings	764.6	748.9	776.1
Non-controlling interest	(0.2)	–	–
Perpetual preferred share dividends	–	(2.2)	(8.8)
Net earnings available to common shareholders	\$ 764.4	\$ 746.7	\$ 767.3
Reconciliation of Non-IFRS financial measures⁽¹⁾ (\$ millions)			
Adjusted net earnings available to common shareholders – non-IFRS measure	\$ 762.9	\$ 763.9	\$ 791.8
Other items:			
Gain on sale of Personal Capital, net of tax	31.4	–	–
Gain on sale of Quadrus Group of Funds net of acquisition costs, net of tax	21.4	–	–
Proportionate share of associate's adjustments	3.4	–	–
Restructuring and other, net of tax	(54.7)	–	(16.7)
Proportionate share of associate's one-time charges	–	(17.2)	–
Premium paid on early redemption of debentures, net of tax	–	–	(7.8)
Net earnings available to common shareholders – IFRS	\$ 764.4	\$ 746.7	\$ 767.3
Earnings per share (\$)			
Adjusted net earnings available to common shareholders ⁽¹⁾			
– Basic	\$ 3.20	\$ 3.19	\$ 3.29
– Diluted	3.20	3.19	3.29
Net earnings available to common shareholders			
– Basic	3.21	3.12	3.19
– Diluted	3.21	3.12	3.18
Dividends per share (\$)			
Common	\$ 2.25	\$ 2.25	\$ 2.25
Preferred, Series B	–	0.37	1.48
Average assets under management and advisement (\$ billions)			
Investment fund assets under management	\$ 161.7	\$ 155.5	\$ 150.5
Total assets under management	168.5	161.1	156.9
Total assets under management and advisement	191.2	183.5	179.3
Ending assets under management and advisement (\$ billions)			
Investment fund assets under management	\$ 162.3	\$ 161.8	\$ 143.3
Total assets under management	214.0	166.8	149.1
Total assets under management and advisement	240.0	190.0	170.2
Total corporate assets (\$ millions)	\$ 16,062	\$ 15,391	\$ 15,609
Total long-term debt (\$ millions)	\$ 2,100	\$ 2,100	\$ 1,850
Outstanding common shares (thousands)	238,308	238,294	240,885

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in addition to the Summary of Consolidated Operating Results section included in this MD&A for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

TABLE 10: SUMMARY OF QUARTERLY RESULTS

	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1
Consolidated statements of earnings (\$ millions)								
Revenues								
Wealth management	\$ 594.2	\$ 571.6	\$ 531.1	\$ 562.7	\$ 587.1	\$ 581.1	\$ 577.5	\$ 553.3
Asset management	216.3	207.4	190.7	198.5	203.4	201.2	198.5	189.2
Dealer compensation expense	(74.3)	(71.3)	(66.1)	(71.4)	(69.8)	(68.9)	(69.6)	(68.7)
Net asset management	142.0	136.1	124.6	127.1	133.6	132.3	128.9	120.5
Net investment income and other	3.2	2.2	7.6	(2.0)	6.7	2.0	4.9	11.2
Proportionate share of associates' earnings	40.1	43.5	43.3	20.1	32.6	28.9	28.2	32.7
	779.5	753.4	706.6	707.9	760.0	744.3	739.5	717.7
Expenses								
Advisory and business development	283.1	252.6	245.4	259.1	270.9	257.1	267.7	270.3
Operations and support	189.0	181.9	185.4	195.1	182.6	180.3	178.5	191.7
Sub-advisory	18.3	18.5	16.9	17.5	18.1	17.4	17.0	15.7
Interest ⁽¹⁾	27.9	27.9	27.5	27.3	27.8	27.8	27.6	25.2
	518.3	480.9	475.2	499.0	499.4	482.6	490.8	502.9
Earnings before undernoted	261.2	272.5	231.4	208.9	260.6	261.7	248.7	214.8
Gain on sale of Personal Capital	–	37.2	–	–	–	–	–	–
Gain on sale of Quadrus Group of Funds								
net of acquisition costs	25.2	–	–	–	–	–	–	–
Proportionate share of associate's adjustments	3.4	–	–	–	–	–	–	–
Restructuring and other	–	(74.5)	–	–	–	–	–	–
Proportionate share of associate's one-time charges	–	–	–	–	(9.2)	–	(8.0)	–
Earnings before income taxes	289.8	235.2	231.4	208.9	251.4	261.7	240.7	214.8
Income taxes	60.5	44.3	47.9	48.0	59.8	59.2	55.6	45.1
Net earnings	229.3	190.9	183.5	160.9	191.6	202.5	185.1	169.7
Non-controlling interest	(0.2)	–	–	–	–	–	–	–
Perpetual preferred share dividends	–	–	–	–	–	–	–	(2.2)
Net earnings available to common shareholders	\$ 229.1	\$ 190.9	\$ 183.5	\$ 160.9	\$ 191.6	\$ 202.5	\$ 185.1	\$ 167.5
Reconciliation of Non-IFRS financial measures⁽²⁾ (\$ millions)								
Adjusted net earnings available to common shareholders – non-IFRS measure	\$ 204.3	\$ 214.2	\$ 183.5	\$ 160.9	\$ 200.8	\$ 202.5	\$ 193.1	\$ 167.5
Other items:								
Gain on sale of Personal Capital, net of tax	–	31.4	–	–	–	–	–	–
Gain on sale of Quadrus Group of Funds								
net of acquisition costs, net of tax	21.4	–	–	–	–	–	–	–
Proportionate share of associate's adjustments	3.4	–	–	–	–	–	–	–
Restructuring and other, net of tax	–	(54.7)	–	–	–	–	–	–
Proportionate share of associate's one-time charges	–	–	–	–	(9.2)	–	(8.0)	–
Net earnings available to common shareholders – IFRS	\$ 229.1	\$ 190.9	\$ 183.5	\$ 160.9	\$ 191.6	\$ 202.5	\$ 185.1	\$ 167.5
Earnings per Share (¢)								
Adjusted net earnings available to common shareholders ⁽¹⁾								
– Basic	86	90	77	68	84	85	81	70
– Diluted	86	90	77	68	84	85	81	70
Net earnings available to common shareholders								
– Basic	96	80	77	68	80	85	77	70
– Diluted	96	80	77	68	80	85	77	70
Average assets under management and advisement (\$ billions)								
Investment fund assets under management	\$ 169.8	\$ 163.7	\$ 152.6	\$ 158.5	\$ 159.5	\$ 156.8	\$ 155.7	\$ 149.9
Total assets under management	177.6	171.4	159.2	163.3	164.5	162.1	161.8	155.9
Assets under management and advisement	202.2	194.9	181.5	186.0	187.4	184.7	184.2	177.8
Ending assets under management and advisement (\$ billions)								
Investment fund assets under management	\$ 162.3	\$ 164.9	\$ 157.8	\$ 143.2	\$ 161.8	\$ 157.6	\$ 156.3	\$ 154.3
Total assets under management	214.0	172.6	165.4	147.5	166.8	162.5	162.3	160.5
Assets under management and advisement	240.0	196.4	188.3	168.4	190.0	185.1	184.9	182.8

(1) Interest expense includes interest on long-term debt and interest on leases.

(2) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A in addition to the Summary of Consolidated Operating Results section included in the MD&A of the 2020 IGM Financial Inc. Annual Report for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

Wealth Management

The Wealth Management segment consists of both IG Wealth Management and Investment Planning Counsel, Inc. (IPC). Prior to the third quarter of 2020, IG Wealth Management was disclosed as a separate segment and IPC was included as part of the Corporate and other segment.

Other key differences of the reporting changes are as follows:

- **Wealth management revenue** include Advisory fees, Product and program fees and Other financial planning revenues. Revenues were previously recorded by function (i.e. management, administration, distribution). Wealth management revenues depend largely on the level and composition of client assets under advisement. Advisory fees are fees for providing financial advice to clients including fees related to the distribution of products.
- **Product and program fees** are related to the management of investment products and include management, administration and other related fees.
- **Other financial planning revenues** are fees related to providing clients other financial products including mortgages, insurance and banking products.
- Expenses include **Advisory and business development, Operations and support** and **Sub-advisory fees**. Expenses were previously categorized as either commission or non-commission.
- **Sub-advisory fees** are fees paid between segments and to third parties for investment management services provided to our investment products. Under the new segments, Wealth Management is considered a client of the Asset Management segment and transfer pricing is based on values for similar sized asset management mandates.

Review of the Business

IG Wealth Management, founded in 1926, provides comprehensive personal financial planning and wealth management services to Canadians through our exclusive network of approximately 3,300 Consultants. IG Wealth Management clients are more than one million individuals, families and business owners.

Investment Planning Counsel, founded in 1996, is an independent distributor of financial products, services and advice in Canada, with 696 financial advisors.

The Wealth Management segment provides a comprehensive planning approach, through IG Wealth Management Consultants and IPC Advisors, by offering a broad range of financial products and services.

The review of the business in the Wealth Management section primarily relates to IG Wealth Management as it represents 97% of earnings before interest and taxes of the total segment.

2020 DEVELOPMENTS

COVID-19 AND CLIENT OUTREACH

As a result of COVID-19 and the resulting impact to global financial markets, we have significantly increased communications to clients and Consultants. We have provided comprehensive information and ongoing market updates to our Consultants, so they have the tools they need to support our clients and their long-term financial planning needs. Our Consultants continue to actively reach out and communicate with our clients, continuing to reinforce the importance of long term planning and a diversified investment portfolio.

During the year, IG Wealth Management launched "Answering the Call," a new program to support Canadian small and medium-sized businesses (SMBs) and their communities as they navigate the financial challenges presented by the COVID-19 crisis.

As of March 2020, there were almost 1.1 million SMBs in Canada, which employed 70 per cent of all private sector workers. IG Wealth Management counts several thousand SMBs among its clients and has been working closely with them throughout this period. The firm has now extended its financial planning expertise to SMB owners across the country.

The Answering the Call initiative was inspired by and is an extension of the work IG Consultants have been doing in their communities since the crisis began. It includes:

- free live regional webinars with tax, financial planning and investing specialists;
- videos from experts on a variety of topics;
- insights on tax planning and how to better understand and access government programs; and
- the opportunity for SMB owners across Canada to be matched with a local IG Wealth Management advisor for a no-obligation consultation.

The firm has also set up an initiative that will see as much as \$500,000 donated by IG Wealth Management to support local businesses and their communities. This is in addition to the \$1 million donation IGM Financial made along with Canada Life and Power Corporation of Canada to support crisis relief efforts.

FEE TRANSPARENCY FOR ALL CLIENTS AND PRICING CHANGES

IG Wealth Management is delivering on its client-focused commitment by expanding fee transparency while introducing product and pricing changes to accelerate growth.

We increased fee transparency by making unbundled solutions available to all client segments in the fourth quarter of 2019. This means clients pay an advisory fee to the dealer for its services as opposed to dealer compensation being bundled within mutual fund management fees. Previously, these solutions were available only to high net worth clients.

IG Wealth Management introduced the IG Advisory Account (IGAA) in the fourth quarter of 2019. IGAA is a fee-based account that offers clients the ability to simplify and consolidate investments into a single account while providing unbundled pricing solutions and improved fee transparency.

IG WEALTH MANAGEMENT STRATEGY

IG Wealth Management's promise is to inspire financial confidence.

Our strategic mandate is to be Canada's financial partner of choice.

Canadians hold \$5.0 trillion in discretionary financial assets with financial institutions at December 31, 2019 based on the most recent report from Investor Economics, and we view these savings as IG Wealth's addressable market. 75% of these savings are held by households with over \$1 million, which are referred to as high net worth, and another 21% reside with households with between \$100,000 and \$1 million, which are referred to as mass affluent. These segments tend to have more complicated financial needs, and IG Wealth Management's focus on providing comprehensive financial planning solutions positions it well to compete and grow in these segments.

Our value proposition is to deliver better Gamma, better Beta and better Alpha.

We seek to deliver our value proposition through:

- Superior Advice – Acquiring a deep knowledge of Canadian investors and using those insights to shape everything we do.
- Segmented Client Experiences – Creating segmented experiences personalized throughout our clients' lifetimes.
- Entrepreneurial Advisors – Inspiring our entrepreneurial advisors to constantly deliver an engaging experience and a holistic plan that seeks to deliver superior outcomes.
- Powerful Financial Solutions – Providing our clients with a comprehensive suite of well-constructed, high-performing and competitively priced solutions.
- Business processes that are simple, easy and digitized – Re-designing client and advisor interactions to simplify processes, reduce errors, and digitize the experience with an appropriate cost structure.
- A high-performing and diverse culture.

DELIVERING GAMMA

THE VALUE OF ALL EFFORTS THAT SIT OUTSIDE OF INVESTMENT PORTFOLIO CONSTRUCTION. THIS INCLUDES THE VALUE THAT A FINANCIAL ADVISOR ADDS TO A CLIENT RELATIONSHIP, AND COMES FROM THE CREATION AND FOLLOW THROUGH OF A WELL-CONSTRUCTED FINANCIAL PLAN.

Entrepreneurial Advisors, Superior Advice

Our financial advisors provide value to clients by developing insight into their specific needs, creating and implementing well-constructed financial plans and offering superior advice. IG Wealth Management has a national distribution network of more than 3,000 highly qualified financial advisors (called Consultants) in communities throughout Canada. Our advisory services are most suited to individuals with complicated financial needs.

All IG Wealth Management Consultant practices hold a credentialed financial planning designation or are enrolled in a program. These designations are nationally recognized financial planning qualifications that require an individual to demonstrate financial planning competence through education, standardized examinations, continuing education requirements, and accountability to ethical standards.

The following provides a breakdown of the IG Wealth Management Consultant network into its significant components at December 31, 2020:

- 1,820 Consultant practices (1,830 at December 31, 2019), which reflect Consultants with more than four years of experience. These practices may include Associates as described below. The level and productivity of Consultant practices is a key measurement of our business as they serve clientele representing approximately 97% of AUM.
- 440 New Consultants (520 at December 31, 2019), which are those Consultants with less than four years of experience.
- 1,044 Associates and Regional Directors (1,031 at December 31, 2019). Associates are licensed team members of Consultant practices who provide financial planning services and advice to the clientele served by the team.
- IG Wealth Management had a total Consultant network of 3,304 (3,381 at December 31, 2019).

IG Wealth Management's recruiting standards increase the likelihood of success while also enhancing our culture and brand.

Our training curriculum is reviewed and refreshed each year to offer new Consultants important building blocks to develop client relationships. As Consultants progress, they develop their skills as financial planners and business managers through a selection of focused educational programs.

We also support Consultants and clients through our network of product and planning specialists, who assist in the areas of advanced financial planning, mortgages and banking, insurance, and securities. These specialists help to ensure that we are

providing comprehensive financial planning across all elements of a client's financial life. Clients are served by our Mutual Fund Dealers Association of Canada (MFDA) and Investment Industry Regulatory Organization of Canada (IIROC) licensed Consultants or specialists.

Segmented Client Experiences

IG Wealth Management distinguishes itself from our competition by offering comprehensive planning to our clients within the context of long-term relationships. A primary focus is on advising and attracting high net worth and mass affluent clients.

For the distinct needs of the high net worth market, we offer IG Private Wealth Management which includes investment management, retirement, tax and estate planning services.

IG Living Plan™ is our holistic, client-centric approach to financial planning that reflects the evolving needs, goals and aspirations of Canadian families and individuals. The IG Living Plan provides a single, integrated view of all aspects of a client's finances. It incorporates investments, tax and risk management strategies, for a truly personalized plan.

The IG Living Plan leverages the expertise of IG Wealth Management's Consultants who serve approximately one million clients located in communities throughout Canada.

IG Wealth Management has a full range of products that allow us to provide a tailored IG Living Plan that evolves over time. These products include:

- Powerful financial solutions that include investment vehicles that match risk and investment performance to each client's needs and requirements.
- Insurance products that include a variety of different policy types from the leading insurers in Canada.
- Mortgage and banking solutions that are offered as part of a comprehensive financial plan.
- Charitable Giving Program, a donor-advised giving program which enables Canadians to make donations and build an enduring charitable giving legacy with considerably less expense and complexity than setting up and administering their own private foundation.

We have established a National Service Centre focused on clients with small account values, while our Consultant practices focus on those clients who have more complicated needs.

Business Processes

IG Wealth Management continually seeks to enhance our systems and business processes so our Consultants can serve clients more effectively. We look to enhance client and advisor interactions on an ongoing basis to simplify processes, reduce errors, and digitize the experience with an appropriate cost structure.

During 2020, we launched the IG Wealth Management Advisor Portal which is a customer relationship management platform based on Salesforce. It enables our Consultants to manage client relationships, improve their efficiency through digitized workflows, and access data-driven reporting to help better run their practices.

IG Wealth Management's dealer platform provides increased automation and supports both MFDA and IIROC licensed advisors as well as new products on our investment dealer platform designed to support the high net worth segment of our client base.

A High-Performing and Diverse Culture

It is essential that we offer competitive compensation and benefits to attract and retain outstanding people. Our training and development approach, along with our use of feedback from periodic employee and advisor surveys, positions our employees and advisors to better serve our clients.

DELIVERING BETA AND ALPHA

BETA – THE VALUE CREATED BY WELL-CONSTRUCTED INVESTMENT PORTFOLIOS – ACHIEVING EXPECTED INVESTMENT RETURNS FOR THE LOWEST POSSIBLE RISK.

ALPHA – THE VALUE OF ACTIVE MANAGEMENT – ACHIEVING RETURNS SUPERIOR TO PASSIVE BENCHMARKS WITH A SIMILAR COMPOSITION AND RISK PROFILE.

IG Wealth Management strives to achieve expected investment returns for the lowest possible risk through well-constructed investment portfolios (Beta), and to create value for clients through active management (Alpha). To do this, we select and engage high-quality global sub-advisors so our clients have access to a diverse range of investment products and solutions. Each asset manager is selected through a proven and rigorous process. We oversee all sub-advisors to ensure that their activities are consistent with their investment philosophies and with the investment objectives and strategies of the products they advise.

IG Wealth Management's relationships include Mackenzie Investments and other world class investment firms such as BlackRock, T. Rowe Price, PIMCO, China AMC, Putnam and JP Morgan Asset Management.

Powerful Financial Solutions

We provide clients with an extensive suite of well-constructed and competitively priced financial solutions. We regularly enhance the scope and diversity of our investment offering with new funds and product changes that enable clients to achieve their goals.

Our solutions include:

- A deep and broad selection of mutual funds, diversified by manager, asset category, investment style, geography, market capitalization and sector.
- Managed portfolios that rebalance investments to ensure that a chosen mix of risk and return is maintained. These solutions include IG Core Portfolios, IG Managed Payout Portfolios, Investors Portfolios, and IG Managed Risk Portfolios.
- *IG Advisory Account (IGAA) and unbundled fee structures* – The IGAA was introduced in the fourth quarter of 2019 and is a fee-based account that improves client experience by offering the ability to simplify and consolidate selected investments into a single account while providing all of our clients with unbundled pricing solutions. IGAA accounts increase fee transparency and can hold most securities and investment products available in the marketplace to individual investors.
- *iProfile™ Private Portfolios* – iProfile Private portfolios are unique portfolio management programs that are available for households with investments held at IG Wealth Management in excess of \$250,000. iProfile investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions.

During the third quarter, the iProfile Fixed Income Private Pool revised its investment strategies by adding a Private Credit Mandate that provides diversified exposure to private credit investments in privately held companies from around the world. The Pool subsequently made commitments to three of Northleaf Capital Partners' private credit investments that focus on loans to middle market companies in North America and Europe.

- *iProfile™ Portfolios* – iProfile Portfolios are a suite of four managed solutions that provide comprehensive diversification and are designed to suit personal preferences for risk tolerance and investment goals. These portfolios are available to households with investments held at IG Wealth Management in excess of \$100,000.
- Segregated funds that provide for long-term investment growth potential combined with risk management, benefit guarantee features and estate planning efficiencies.
- Separately managed accounts (discretionary dealer-managed accounts) and fee-based brokerage accounts.

A growing portion of IG Wealth Management's client assets are in unbundled fee structures. We are in the process of migrating our clients to unbundled fee products, a significant change for IG Wealth Management and the Canadian mutual fund industry overall. Unbundled fee products separate the advisory fee that is charged directly to a client's account from the fees charged to the underlying investment funds. This separation provides clients with greater transparency into the fees they pay, and allows IG Wealth Management to offer competitive pricing, particularly for high net worth clients. This allows IG Wealth Management

to differentiate pricing by client segment, ensuring that it is competitive and rewards client loyalty while encouraging consolidation of client wealth at IG and attracting new clients.

We have discontinued offering bundled purchase options for substantially all investment products.

IG Wealth Management monitors its investment performance by comparing to certain benchmarks. Morningstar¹ fund ranking service is one of the rankings monitored when determining fund performance.

At December 31, 2020, 90.8% of IG Wealth Management mutual fund unbundled series had a rating of three stars or better from Morningstar¹ fund ranking service and 37.4% had a rating of four or five stars. This compared to the Morningstar¹ universe of 71.2% for three stars or better and 36.3% for four and five star funds at December 31, 2020. These are available within the IG Advisory Account to which we are in the process of migrating IG client accounts. Morningstar Ratings¹ are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

WEALTH MANAGEMENT ASSETS UNDER MANAGEMENT AND ADVISEMENT

Assets under management and advisement are key performance indicators for the Wealth Management segment.

Wealth Management's assets under advisement were \$132.6 billion at December 31, 2020, an increase of 6.2% from December 31, 2019. The level of assets under advisement are influenced by three factors: client inflows, client outflows and investment returns.

Wealth Management's assets under management were \$103.0 billion, an increase of 4.5% from December 31, 2019. The level of assets under management are influenced by sales, redemptions and investment returns.

Changes in Wealth Management assets under advisement and assets under management for the periods under review are reflected in Tables 11 and 12.

IG WEALTH MANAGEMENT ASSETS UNDER MANAGEMENT AND ADVISEMENT

The introduction of the IG Advisory Account means that fees are charged on eligible external assets under advisement. Assets under advisement are therefore a key performance indicator for IG Wealth Management. Revenues from the IG Advisory Account are earned on eligible external assets under advisement. Our Consultants' compensation is also based on assets contributed into the IG Advisory Account and other fee-based programs.

IG Wealth Management's assets under advisement were \$103.3 billion at December 31, 2020, an increase of 6.4% from

TABLE 11: CHANGE IN ASSETS UNDER ADVISEMENT – WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2020 DEC. 31	2020 SEP. 30	2019 DEC. 31	% CHANGE	
				2020 SEP. 30	2019 DEC. 31
Gross client inflows	\$ 4,425	\$ 3,024	\$ 3,617	46.3 %	22.3 %
Gross client outflows	3,688	3,179	3,748	16.0	(1.6)
Net flows	737	(155)	(131)	N/M	N/M
Investment returns	6,831	4,703	3,254	45.2	109.9
Net change in assets	7,568	4,548	3,123	66.4	142.3
Beginning assets	125,015	120,467	121,697	3.8	2.7
Ending assets under advisement	\$ 132,583	\$ 125,015	\$ 124,820	6.1 %	6.2 %
IG Wealth Management	103,273	97,538	97,100	5.9	6.4
Investment Planning Counsel	29,318	27,484	27,728	6.7	5.7
Average assets under advisement	\$ 128,342	\$ 124,327	\$ 123,180	3.2 %	4.2 %
IG Wealth Management	100,295	97,045	95,780	3.3	4.7
Investment Planning Counsel	28,054	27,288	27,407	2.8	2.4

TWELVE MONTHS ENDED (\$ millions)	2020 DEC. 31	2019 DEC. 31	% CHANGE
Gross client inflows	\$ 14,737	\$ 13,652	7.9 %
Gross client outflows	13,564	15,016	(9.7)
Net flows	1,173	(1,364)	N/M
Investment returns	6,590	14,064	(53.1)
Net change in assets	7,763	12,700	(38.9)
Beginning assets	124,820	112,120	11.3
Ending assets under advisement	\$ 132,583	\$ 124,820	6.2 %
IG Wealth Management	103,273	97,100	6.4
Investment Planning Counsel	29,318	27,728	5.7
Average assets under advisement	\$ 122,919	\$ 120,622	1.9 %
IG Wealth Management	95,870	93,546	2.5
Investment Planning Counsel	27,056	27,084	(0.1)

December 31, 2019, and mutual fund assets under management were \$97.7 billion, an increase of 4.9%.

Changes in IG Wealth Management assets under advisement and management for the periods under review are reflected in Tables 13 and 14.

For the quarter ended December 31, 2020, gross client inflows of IG Wealth Management assets under advisement were \$2.9 billion, an increase of 19.1% from \$2.5 billion in the comparable period in 2019. Net client inflows were \$485 million in the fourth quarter, an improvement of \$594 million from net client outflows of \$109 million in the comparable period in 2019. During the fourth quarter, investment returns resulted in an increase of \$5.3 billion in assets under advisement compared to an increase of \$2.7 billion in the fourth quarter of 2019.

For the year ended December 31, 2020, gross client inflows of IG Wealth Management assets under advisement were \$10.0 billion, an increase of 7.2% from \$9.3 billion in the comparable period in 2019. Net client inflows were \$795 million in 2020, an increase of \$1.6 billion from net client outflows

of \$780 million in the comparable period in 2019. During the twelve month period, investment returns resulted in an increase of \$5.4 billion in assets under advisement compared to an increase of \$11.5 billion in 2019.

Changes in mutual fund assets under management for the periods under review are reflected in Table 14.

At December 31, 2020, \$51.7 billion, or 53% of IG Wealth Management's mutual fund assets under management, were in products with unbundled fee structures, up 43.3% from \$36.0 billion at December 31, 2019 which represented 39% of assets under management.

HIGH NET WORTH OFFERINGS

IG Wealth Management has several offerings to address the needs of high net worth clients, who represent a growing segment of our client base, and continues to look at improving our offerings to this segment. Assets under management for clients in this category totalled \$58.9 billion at December 31, 2020, an increase of 18.5% from one year ago, and represented

TABLE 12: CHANGE IN ASSETS UNDER MANAGEMENT – WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	% CHANGE				
	2020 DEC. 31	2020 SEP. 30	2019 DEC. 31	2020 SEP. 30	2019 DEC. 31
Sales	\$ 2,749	\$ 2,046	\$ 2,398	34.4 %	14.6 %
Redemptions	2,847	2,382	2,759	19.5	3.2
Net sales (redemptions)	(98)	(336)	(361)	70.8	72.9
Investment returns	5,118	3,775	2,769	35.6	84.8
Net change in assets	5,020	3,439	2,408	46.0	108.5
Beginning assets	98,013	94,574	96,144	3.6	1.9
Ending assets under management	\$ 103,033	\$ 98,013	\$ 98,552	5.1 %	4.5 %
IG Wealth Management	97,713	92,874	93,161	5.2	4.9
Investment Planning Counsel	5,320	5,139	5,391	3.5	(1.3)
Daily average mutual fund assets	\$ 100,419	\$ 97,687	\$ 97,316	2.8 %	3.2 %
IG Wealth Management	95,194	92,543	91,931	2.9	3.5
Investment Planning Counsel	5,225	5,144	5,385	1.6	(3.0)

TWELVE MONTHS ENDED (\$ millions)	% CHANGE		
	2020 DEC. 31	2019 DEC. 31	% CHANGE
Sales	\$ 9,564	\$ 9,417	1.6 %
Redemptions	10,322	10,778	(4.2)
Net sales (redemptions)	(758)	(1,361)	44.3
Investment returns	5,239	11,651	(55.0)
Net change in assets	4,481	10,290	(56.4)
Beginning assets	98,552	88,262	11.7
Ending assets under management	\$ 103,033	\$ 98,552	4.5 %
IG Wealth Management	97,713	93,161	4.9
Investment Planning Counsel	5,320	5,391	(1.3)
Daily average mutual fund assets	\$ 97,062	\$ 95,252	1.9 %
IG Wealth Management	91,929	89,875	2.3
Investment Planning Counsel	5,133	5,377	(4.5)

60% of total assets under management. Sales of high net worth solutions totalled \$1.6 billion for the fourth quarter of 2020, an increase of 28.8% from a year ago, and represented 62% of total sales up from 55% in 2019. For the twelve month period, sales of high net worth solutions totalled \$4.8 billion, an increase of 7.9% from a year ago, and represented 54% of total sales up from 52% in 2019. High net worth solutions include Series U and for family groups in excess of \$500,000, Series J and iProfile™ Private Portfolios.

- Series U is available to all clients and provides an unbundled pricing structure that separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At December 31, 2020, Series U assets under management related to households with investments held at IG Wealth Management in excess of \$500,000 had increased to \$28.5 billion, compared to \$20.6 billion at December 31, 2019, an increase of 38.1%.

- iProfile™ Private Portfolios – are unique portfolio management programs that are available for households with investments held at IG Wealth Management in excess of \$250,000. The iProfile program also has an unbundled pricing structure. At December 31, 2020, the iProfile program assets under management were \$19.7 billion, an increase of 30.0% from \$15.1 billion at December 31, 2019.
- Series J is available for households with investments in IG Wealth Management funds in excess of \$500,000 and had assets of \$10.7 billion at December 31, 2020, a decrease of 23.1% from \$14.0 billion at December 31, 2019, largely as a result of transfer activity from Series J to Series U. Series J pricing structure bundles the cost of asset management and advice into one fee. We continue to migrate clients from Series J to Series U.

NATIONAL SERVICE CENTRE

Our National Service Centre supports more than 200,000 clients and \$1.8 billion assets under management.

TABLE 13: CHANGE IN ASSETS UNDER ADVISEMENT – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2020 DEC. 31	2020 SEP. 30	2019 DEC. 31	% CHANGE	
				2020 SEP. 30	2019 DEC. 31
Gross client inflows	\$ 2,938	\$ 2,132	\$ 2,467	37.8 %	19.1 %
Gross client outflows	2,453	2,141	2,576	14.6	(4.8)
Net flows	485	(9)	(109)	N/M	N/M
Investment returns	5,250	3,711	2,680	41.5	95.9
Net change in assets	5,735	3,702	2,571	54.9	123.1
Beginning assets	97,538	93,836	94,529	3.9	3.2
Ending assets	\$ 103,273	\$ 97,538	\$ 97,100	5.9 %	6.4 %
Average assets under advisement	\$ 100,295	\$ 97,045	\$ 95,780	3.3 %	4.7 %

TWELVE MONTHS ENDED (\$ millions)	2020 DEC. 31	2019 DEC. 31	% CHANGE	
Gross client inflows	\$ 9,977	\$ 9,307		7.2 %
Gross client outflows	9,182	10,087		(9.0)
Net flows	795	(780)		N/M
Investment returns	5,378	11,458		(53.1)
Net change in assets	6,173	10,678		(42.2)
Beginning assets	97,100	86,422		12.4
Ending assets	\$ 103,273	\$ 97,100		6.4 %
Average assets under advisement	\$ 95,870	\$ 93,546		2.5 %

TABLE 14: CHANGE IN ASSETS UNDER MANAGEMENT – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2020 DEC. 31	2020 SEP. 30	2019 DEC. 31	% CHANGE	
				2020 SEP. 30	2019 DEC. 31
Sales	\$ 2,572	\$ 1,949	\$ 2,251	32.0 %	14.3 %
Redemptions	2,581	2,208	2,498	16.9	3.3
Net sales (redemptions)	(9)	(259)	(247)	96.5	96.4
Investment returns	4,848	3,600	2,629	34.7	84.4
Net change in assets	4,839	3,341	2,382	44.8	103.1
Beginning assets	92,874	89,533	90,779	3.7	2.3
Ending assets	\$ 97,713	\$ 92,874	\$ 93,161	5.2 %	4.9 %
Daily average assets under management	\$ 95,194	\$ 92,543	\$ 91,931	2.9 %	3.5 %

TWELVE MONTHS ENDED (\$ millions)	2020 DEC. 31	2019 DEC. 31	% CHANGE	
Sales	\$ 8,987	\$ 8,723		3.0 %
Redemptions	9,438	9,812		(3.8)
Net sales (redemptions)	(451)	(1,089)		58.6
Investment returns	5,003	11,113		(55.0)
Net change in assets	4,552	10,024		(54.6)
Beginning assets	93,161	83,137		12.1
Ending assets	\$ 97,713	\$ 93,161		4.9 %
Daily average assets under management	\$ 91,929	\$ 89,875		2.3 %

CHANGE IN ASSETS UNDER MANAGEMENT AND ADVISEMENT – 2020 VS. 2019

IG Wealth Management's assets under advisement were \$103.3 billion at December 31, 2020, up 6.4% from \$97.1 billion at December 31, 2019. IG Wealth Management's mutual fund assets under management were \$97.7 billion at December 31, 2020, representing an increase of 4.9% from \$93.2 billion at December 31, 2019. Average daily mutual fund assets were \$95.2 billion in the fourth quarter of 2020, up 3.5% from \$91.9 billion in the fourth quarter of 2019. Average daily mutual fund assets were \$91.9 billion for the twelve months ended December 31, 2020, up 2.3% from \$89.9 billion in 2019.

For the quarter ended December 31, 2020, sales of IG Wealth Management mutual funds through its Consultant network were \$2.6 billion, an increase of 14.3% from the comparable period in 2019. Mutual fund redemptions totalled \$2.6 billion, an increase of 3.3% from 2019. IG Wealth Management mutual fund net redemptions for the fourth quarter of 2020 were \$9 million compared with net redemptions of \$247 million in 2019. During the fourth quarter, investment returns resulted in an increase of \$4.8 billion in mutual fund assets compared to an increase of \$2.6 billion in the fourth quarter of 2019.

IG Wealth Management's annualized quarterly redemption rate for long-term funds was 10.3% in the fourth quarter of 2020, compared to 10.2% in the fourth quarter of 2019. IG Wealth Management's twelve month trailing redemption rate for long-term funds was 9.8% at December 31, 2020, compared to 10.3% at December 31, 2019, and remains well below the corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 15.8% at December 31, 2020. IG Wealth Management's redemption rate has been very stable compared to the overall mutual fund industry, reflecting our focus on financial planning.

For the twelve months ended December 31, 2020, sales of IG Wealth Management mutual funds through its Consultant network were \$9.0 billion, an increase of 3.0% from 2019. Mutual fund redemptions totalled \$9.4 billion, a decrease of 3.8% from 2019. Net redemptions of IG Wealth Management mutual funds were \$451 million compared with net redemptions of \$1.1 billion in 2019. During 2020, investment returns resulted in an increase of \$5.0 billion in mutual fund assets compared to an increase of \$11.1 billion in 2019.

CHANGE IN ASSETS UNDER MANAGEMENT AND ADVISEMENT – Q4 2020 VS. Q3 2020

IG Wealth Management's assets under advisement were \$103.3 billion at December 31, 2020, an increase of 5.9% from \$97.5 billion at September 30, 2020. IG Wealth Management's mutual fund assets under management were \$97.7 billion at December 31, 2020, an increase of 5.2% from \$92.9 billion at September 30, 2020. Average daily mutual fund assets

were \$95.2 billion in the fourth quarter of 2020 compared to \$92.5 billion in the third quarter of 2020, an increase of 2.9%.

For the quarter ended December 31, 2020, sales of IG Wealth Management mutual funds through its Consultant network were \$2.6 billion, an increase of 32.0% from the third quarter of 2020. Mutual fund redemptions, which totalled \$2.6 billion for the fourth quarter, increased 16.9% from the previous quarter and the annualized quarterly redemption rate was 10.3% in the fourth quarter compared to 9.0% in the third quarter of 2020. IG Wealth Management mutual fund net redemptions were \$9 million for the current quarter compared to net redemptions of \$259 million in the previous quarter.

IG WEALTH MANAGEMENT OTHER PRODUCTS AND SERVICES

SEGREGATED FUNDS

IG Wealth Management offers segregated funds which include the IG Series of Guaranteed Investment Funds (GIFs). Select GIF policies allow for a Lifetime Income Benefit (LIB) option to provide guaranteed retirement income for life. The investment components of these segregated funds are managed by IG Wealth Management. At December 31, 2020, total segregated fund assets were \$1.6 billion, unchanged from December 31, 2019.

INSURANCE

IG Wealth Management continues to be a leader in the distribution of life insurance in Canada. Through its arrangements with leading insurance companies, IG Wealth Management offers a broad range of term, universal life, whole life, disability, critical illness, long-term care, personal health care coverage and group insurance. The Canada Life Assurance Company is a leading provider of the Company's insurance products. Effective as of January 1, 2020, The Great-West Life Assurance Company (Great-West), London Life Insurance Company (London Life) and Canada Life, amalgamated into a single company, The Canada Life Assurance Company.

The average number of policies sold by each insurance-licensed Consultant was 2.6 for the quarter ended December 31, 2020, compared to 2.5 in 2019. For the twelve months ended December 31, 2020, the average number of policies sold by each insurance-licensed Consultant was 9.0 compared to 10.0 in 2019. Distribution of insurance products is enhanced through IG Wealth Management's Insurance Planning Specialists, located throughout Canada, who assist Consultants with advanced estate planning solutions for high net worth clients.

SECURITIES OPERATIONS

Investors Group Securities Inc. is an investment dealer registered in all Canadian provinces and territories providing clients with securities services to complement their financial and investment

planning. IG Wealth Management Consultants can refer clients to one of our Wealth Planning Specialists available through Investors Group Securities Inc.

MORTGAGE AND BANKING OPERATIONS

IG Wealth Management Mortgage Planning Specialists are located throughout each province in Canada, and work with our clients and their Consultants to develop mortgage and other lending strategies that meet the individual needs and goals of each client as part of their comprehensive financial plan.

Mortgages are offered to clients by IG Wealth Management, a national mortgage lender, and through IG Wealth Management's Solutions Banking[†], provided by National Bank of Canada under a long-term distribution agreement. An All-in-One product, a comprehensive cash management solution that integrates the features of a mortgage, term loan, revolving line of credit and deposit account, is also offered through Solutions Banking[†].

In 2020, the Company supported and participated in the deferral of mortgage payments enacted to support homeowners as a result of the economic disruption caused by COVID-19. The assessment was made on a case by case basis, subject to client needs and in the context of their overall financial plan. At December 31, 2020, there were no mortgages in the deferral program. This compared to \$94.5 million at September 30, 2020 and \$306.0 million at June 30, 2020 which represented 1.1% and 3.3%, respectively, of the Company's total mortgages.

Mortgage fundings offered through IG Wealth Management and through Solutions Banking[†] for the three and twelve months ended December 31, 2020 were \$297 million and \$1.1 billion compared to \$293 million and \$1.2 billion in 2019, an increase of 1.4% and a decrease of 6.1%, respectively. At December 31, 2020, mortgages offered through both sources totalled \$9.5 billion, compared to \$10.3 billion at December 31, 2019, a decrease of 8.4%.

Available credit associated with Solutions Banking[†] All-in-One accounts originated for the three and twelve month periods ended December 31, 2020 were \$411 million and \$1.2 billion, respectively, compared to \$240 million and \$770 million in 2019. At December 31, 2020, the balance outstanding of Solutions Banking[†] All-in-One products was \$3.4 billion, compared to \$2.9 billion one year ago, and represented approximately 51% of total available credit associated with these accounts.

Other products and services offered through IG Wealth Management's Solutions Banking[†] include investment loans, lines of credit, personal loans, creditor insurance, deposit accounts, and credit cards. Through Solutions Banking[†], clients have access to a network of banking machines, as well as a private labeled client website and client service centre. The Solutions Banking[†] offering supports IG Wealth Management's approach to delivering total financial solutions for our clients through a broad financial planning platform. Total outstanding lending products of IG Wealth Management clients in the Solutions Banking[†] offering, including Solutions Banking[†] mortgages totalled \$5.1 billion at December 31, 2020, compared to \$4.5 billion at December 31, 2019.

Review of Segment Operating Results

The Wealth Management segment's earnings before interest and taxes are presented in Table 15 and include the operations of IG Wealth Management and Investment Planning Counsel.

IG WEALTH MANAGEMENT

IG Wealth Management earnings before interest and taxes are presented in Table 16.

2020 VS. 2019

FEE INCOME

Advisory fees include fees for providing financial advice to clients including fees related to the distribution of products, and depend largely on the level and composition of assets under advisement. Advisory fees were \$265.5 million in the fourth quarter of 2020, an increase of \$1.8 million or 0.7% from \$263.7 million in 2019. For the twelve months ended December 31, 2020, advisory fees were \$1,019.1 million, a decrease of \$14.6 million or 1.4% from \$1,033.7 million in 2019.

The increase in advisory fees in the three months ending December 31, 2020 was primarily due to the increase in average assets under advisement of 4.7%, as shown in Table 13, offset by a decrease in the advisory fee rate. The decrease in advisory fees for the twelve months ending December 31, 2020 was due to lower rates offset in part by an increase in assets under advisement of 2.5%. The average advisory fee rate for the fourth quarter was 105.3 basis points of average assets under advisement compared to 109.2 basis points in 2019, reflecting changes in product and client mix. The average advisory fee rate for the twelve months ended December 31, 2020, was 106.3 basis points of average assets under advisement compared to 110.5 basis points in 2019, primarily reflecting changes in product and client mix. We also have more high net worth clients who are eligible for lower rates.

Product and program fees depend largely on the level and composition of mutual fund assets under management. Product and program fees totalled \$205.8 million in the current quarter, up 2.3% from \$201.2 million a year ago. Product and program fees were \$790.6 million for the twelve month period ended December 31, 2020 compared to \$784.8 million in 2019, increase of 0.7%.

The increase in product and program fees in the fourth quarter of 2020 was primarily due to the increase in average assets under management of 3.5%, as shown in Table 14. The average product and program fee rate for the fourth quarter was 85.9 basis points of average assets under management compared to 87.1 basis points in 2019, reflecting changes in product mix.

The increase in product and program fees in the twelve month period ended December 31, 2020 was primarily due to the increase in average assets under management of 2.3%, as shown in Table 14. The average product and program fee rate for the year was 86.3 basis points of average assets under management compared to 87.6 basis points in 2019, reflecting changes in product mix.

Other financial planning revenues are primarily earned from:

- Mortgage banking operations
- Distribution of insurance products through I.G. Insurance Services Inc.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking[†]

Other financial planning revenues of \$45.3 million for the fourth quarter of 2020 increased by \$0.9 million from \$44.4 million in 2019. For the twelve month period, other financial planning revenues of \$149.5 million decreased by \$14.6 million from \$164.1 million in 2019. The increase in the three month period was primarily due to higher earnings from the mortgage banking operations offset in part by lower distribution fee income from insurance products. The decrease in the twelve month period was primarily due to lower distribution income from insurance products.

A summary of mortgage banking operations for the three and twelve month periods under review is presented in Table 17.

NET INVESTMENT INCOME AND OTHER

Net investment income and other is primarily related to investment income earned on our cash and cash equivalents and securities and other income not related to our core business. It also includes a charge from the Strategic Investments and Other segment for the use of unallocated capital.

EXPENSES

IG Wealth Management incurs advisory and business development expenses that include compensation paid to our Consultants. The majority of these costs vary directly with asset or sales levels. Also included are other distribution and business development activities which do not vary directly with asset or sales levels, such as direct marketing and advertising, financial planning specialist support and other costs incurred to support our adviser networks. These expenses tend to be discretionary or vary based upon the number of consultants or clients.

Asset-based compensation fluctuates with the value of assets under advisement. Asset-based compensation, increased by

TABLE 15: OPERATING RESULTS – WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2020	2020	2019	% CHANGE	
	DEC. 31	SEP. 30	DEC. 31	2020 SEP. 30	2019 DEC. 31
Revenues					
Wealth Management					
Advisory fees	\$ 325.5	\$ 315.3	\$ 319.4	3.2 %	1.9 %
Product and program fees	219.8	214.9	216.3	2.3	1.6
	545.3	530.2	535.7	2.8	1.8
Redemption fees	3.2	3.7	5.8	(13.5)	(44.8)
Other financial planning revenues	50.0	41.8	49.6	19.6	0.8
Total Wealth Management	598.5	575.7	591.1	4.0	1.3
Net investment income and other	1.0	0.7	4.5	42.9	(77.8)
	599.5	576.4	595.6	4.0	0.7
Expenses					
Advisory and business development					
Asset-based compensation	164.3	158.9	147.0	3.4	11.8
Sales-based compensation	10.6	9.5	22.5	11.6	(52.9)
Other					
Other product commissions	20.1	15.7	20.4	28.0	(1.5)
Business development	59.8	52.4	58.7	14.1	1.9
	79.9	68.1	79.1	17.3	1.0
Total advisory and business development	254.8	236.5	248.6	7.7	2.5
Operations and support	113.3	111.2	104.2	1.9	8.7
Sub-advisory	42.7	41.7	41.5	2.4	2.9
	410.8	389.4	394.3	5.5	4.2
Earnings before interest and taxes	\$ 188.7	\$ 187.0	\$ 201.3	0.9 %	(6.3) %
TWELVE MONTHS ENDED (\$ millions)			2020 DEC. 31	2019 DEC. 31	% CHANGE
Revenues					
Wealth Management					
Advisory fees			\$ 1,245.7	\$ 1,259.0	(1.1) %
Product and program fees			846.3	844.7	0.2
			2,092.0	2,103.7	(0.6)
Redemption fees			16.0	26.5	(39.6)
Other financial planning revenues			168.0	185.0	(9.2)
Total Wealth Management			2,276.0	2,315.2	(1.7)
Net investment income and other			2.3	13.6	(83.1)
			2,278.3	2,328.8	(2.2)
Expenses					
Advisory and business development					
Asset-based compensation			625.9	576.2	8.6
Sales-based compensation			36.4	95.5	(61.9)
Other					
Other product commissions			69.8	80.2	(13.0)
Business development			227.9	234.6	(2.9)
			297.7	314.8	(5.4)
Total advisory and business development			960.0	986.5	(2.7)
Operations and support			453.7	436.0	4.1
Sub-advisory			163.2	161.5	1.1
			1,576.9	1,584.0	(0.4)
Earnings before interest and taxes			\$ 701.4	\$ 744.8	(5.8) %

TABLE 16: OPERATING RESULTS – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2020	2020	2019	% CHANGE	
	DEC. 31	SEP. 30	DEC. 31	2020 SEP. 30	2019 DEC. 31
Revenues					
Wealth Management					
Advisory fees	\$ 265.5	\$ 259.1	\$ 263.7	2.5 %	0.7 %
Product and program fees	205.8	201.0	201.2	2.4	2.3
	471.3	460.1	464.9	2.4	1.4
Redemption fees	3.0	3.7	5.7	(18.9)	(47.4)
Other financial planning revenues	45.3	37.2	44.4	21.8	2.0
Total Wealth Management	519.6	501.0	515.0	3.7	0.9
Net investment income and other	0.8	0.6	4.0	33.3	(80.0)
	520.4	501.6	519.0	3.7	0.3
Expenses					
Advisory and business development					
Asset-based compensation	116.8	113.1	101.8	3.3	14.7
Sales-based compensation	10.6	9.5	22.6	11.6	(53.1)
Other					
Other product commissions	17.3	12.9	17.4	34.1	(0.6)
Business development	52.3	46.0	51.8	13.7	1.0
	69.6	58.9	69.2	18.2	0.6
Total advisory and business development	197.0	181.5	193.6	8.5	1.8
Operations and support	101.8	100.0	92.3	1.8	10.3
Sub-advisory	39.2	38.4	37.6	2.1	4.3
	338.0	319.9	323.5	5.7	4.5
Earnings before interest and taxes	\$ 182.4	\$ 181.7	\$ 195.5	0.4 %	(6.7) %
TWELVE MONTHS ENDED (\$ millions)			2020 DEC. 31	2019 DEC. 31	% CHANGE
Revenues					
Wealth Management					
Advisory fees			\$ 1,019.1	\$ 1,033.7	(1.4) %
Product and program fees			790.6	784.8	0.7
			1,809.7	1,818.5	(0.5)
Redemption fees			15.7	26.1	(39.8)
Other financial planning revenues			149.5	164.1	(8.9)
Total Wealth Management			1,974.9	2,008.7	(1.7)
Net investment income and other			1.3	10.1	(87.1)
			1,976.2	2,018.8	(2.1)
Expenses					
Advisory and business development					
Asset-based compensation			445.5	397.0	12.2
Sales-based compensation			36.4	95.2	(61.8)
Other					
Other product commissions			58.6	67.6	(13.3)
Business development			199.1	207.3	(4.0)
			257.7	274.9	(6.3)
Total advisory and business development			739.6	767.1	(3.6)
Operations and support			407.1	385.7	5.5
Sub-advisory			149.7	145.4	3.0
			1,296.4	1,298.2	(0.1)
Earnings before interest and taxes			\$ 679.8	\$ 720.6	(5.7) %

TABLE 17: MORTGAGE BANKING OPERATIONS – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2020 DEC. 31	2020 SEP. 30	2019 DEC. 31	2020 SEP. 30	2019 DEC. 31	% CHANGE
Total mortgage banking income						
Net interest income on securitized loans						
Interest income	\$ 44.1	\$ 44.7	\$ 50.5	(1.3) %	(12.7) %	
Interest expense	33.5	35.5	41.3	(5.6)	(18.9)	
Net interest income	10.6	9.2	9.2	15.2	15.2	
Gains on sales ⁽¹⁾	3.7	3.2	0.6	15.6	N/M	
Fair value adjustments	(1.0)	–	0.2	–	N/M	
Other	1.8	1.8	2.8	–	(35.7)	
	\$ 15.1	\$ 14.2	\$ 12.8	6.3 %	18.0 %	
Average mortgages serviced						
Securitizations	\$ 6,126	\$ 6,444	\$ 6,996	(4.9) %	(12.4) %	
Other	2,670	2,736	2,744	(2.4)	(2.7)	
	\$ 8,796	\$ 9,180	\$ 9,740	(4.2) %	(9.7) %	
Mortgage sales to: ⁽²⁾						
Securitizations	\$ 434	\$ 606	\$ 284	(28.4) %	52.8 %	
Other ⁽¹⁾	246	167	256	47.3	(3.9)	
	\$ 680	\$ 773	\$ 540	(12.0) %	25.9 %	
TWELVE MONTHS ENDED (\$ millions)			2020 DEC. 31	2019 DEC. 31		% CHANGE
Total mortgage banking income						
Net interest income on securitized loans						
Interest income			\$ 181.1	\$ 208.0		(12.9) %
Interest expense			148.5	171.9		(13.6)
Net interest income			32.6	36.1		(9.7)
Gains on sales ⁽¹⁾			9.8	3.2		206.3
Fair value adjustments			(5.1)	(4.3)		(18.6)
Other			8.5	10.4		(18.3)
			\$ 45.8	\$ 45.4		0.9 %
Average mortgages serviced						
Securitizations			\$ 6,465	\$ 7,232		(10.6) %
Other			2,748	2,782		(1.2)
			\$ 9,213	\$ 10,014		(8.0) %
Mortgage sales to: ⁽²⁾						
Securitizations			\$ 1,605	\$ 1,517		5.8 %
Other ⁽¹⁾			760	558		36.2
			\$ 2,365	\$ 2,075		14.0 %

(1) Represents sales to institutional investors through private placements, to Investors Mortgage and Short Term Income Fund, and to Investors Canadian Corporate Bond Fund as well as gains realized on those sales.

(2) Represents principal amounts sold.

\$15.0 million and \$48.5 million for the three and twelve month periods ended December 31, 2020 to \$116.8 million and \$445.5 million, compared to 2019. The increase was primarily due to increased average assets under advisement and compensation changes implemented in 2020.

Effective January 1, 2020, IG Wealth Management Consultant sales-based compensation is based upon the level of new assets contributed to client accounts at IG Wealth Management (subject to eligibility requirements), where previously they were based upon gross sales of IG Wealth Management mutual funds.

All sales-based compensation payments are now capitalized and amortized as they reflect incremental costs to obtain a client contract. Previously, sales-based compensation associated with sales of IG Wealth Management mutual funds with bundled pricing were expensed as incurred as these commissions were deemed to be fulfillment of an existing contract with a mutual fund.

Sales-based compensation paid fluctuates with the level of new assets contributed to IG Wealth Management accounts. Sales-based compensation paid on the sale of investment products are capitalized and amortized over their estimated useful lives where the Company receives a fee directly from the client. All other sales-based compensation paid on investment product sales are expensed as incurred.

Sales-based compensation was \$10.6 million for the fourth quarter of 2020, a decrease of \$12.0 million from \$22.6 million in 2019 and for the twelve month period, sales-based compensation expense was \$36.4 million, a decrease of \$58.8 million from \$95.2 million in 2019. There was lower sales-based compensation expense in 2020 primarily due to sales-based compensation paid on the sales of investment products being capitalized in 2020.

Other advisory and business development expenses were \$52.3 million in the fourth quarter of 2020, compared to \$51.8 million in 2019. Other advisory and business development expenses were \$199.1 million in the twelve months ended December 31, 2020 compared to \$207.3 million in 2019 due to the reduction of certain costs due to COVID-19 as communicated in the first quarter of 2020.

Operations and support includes costs that support our wealth management and other general and administrative functions such as product management, technology and operations, as well as other functional business units and corporate expenses. Operations and support expenses were \$101.8 million for the fourth quarter of 2020 compared to \$92.3 million in 2019, an increase of \$9.5 million or 10.3%. For the twelve month period, operations and support expenses were \$407.1 million in 2020 compared to \$385.7 million in 2019, an increase of \$21.4 million or 5.5%. The changes are due to expenses related to information technology, including Advisor Portal as well as expenses related to our operations transformation program.

Sub-advisory expenses were \$39.2 million for the fourth quarter of 2020 compared to \$37.6 million in 2019, an increase of \$1.6 million or 4.3%. For the twelve month period, sub-advisory expenses were \$149.7 million in 2020 compared to \$145.4 million in 2019, an increase of \$4.3 million or 3.0%.

Q4 2020 VS. Q3 2020

FEE INCOME

Advisory fee income increased by \$6.4 million or 2.5% to \$265.5 million in the fourth quarter of 2020 compared with the third quarter of 2020. The increase in advisory fees in the fourth quarter was primarily due to the increase in average assets under advisement of 3.3% for the quarter, as shown in Table 13. The average advisory fee rate for the fourth quarter was 105.3 basis points of average assets under management compared to 106.2 basis points in the third quarter of 2020.

Product and program fees were \$205.8 million in the fourth quarter of 2020, an increase of \$4.8 million from \$201.0 in the third quarter of 2020. The increase in product and program fees was due to higher assets under management. The average product and program fee rate in the fourth quarter was 85.9 basis points compared to 86.2 basis points in the third quarter of 2020.

Other financial planning revenues of \$45.3 million in the fourth quarter of 2020 increased by \$8.1 million from \$37.2 million in the third quarter primarily due to increased distribution revenue from insurance products.

NET INVESTMENT INCOME AND OTHER

Net investment income and other was \$0.8 million in the fourth quarter of 2020 compared to \$0.6 million in the previous quarter, an increase of \$0.2 million.

EXPENSES

Advisory and business development expenses in the current quarter were \$197.0 million compared with \$181.5 million in the previous quarter due to higher asset based compensation and higher commissions on the distribution of insurance products.

INVESTMENT PLANNING COUNSEL

2020 VS. 2019

Earnings before interest and taxes related to Investment Planning Counsel were \$0.4 million higher in the fourth quarter of 2020 compared to the fourth quarter of 2019 and were \$2.7 million lower in the year ended December 31, 2020 compared to 2019.

Q4 2020 VS. Q3 2020

Earnings before interest and taxes related to Investment Planning Counsel were \$1.0 million higher in the fourth quarter of 2020 compared to the prior quarter.

Asset Management

The Asset Management segment includes Mackenzie Investments.

The key differences of the disclosure enhancements made to the Asset Management segment during 2020 are as follows:

- **Assets managed for IG Wealth Management** are included in the Asset Management segment's assets under management. Revenue earned on these sub-advised assets are included in Asset Management's revenue. Previously, the costs of the investment management teams were allocated based on a cost sharing agreement.
- **Asset management fees** include fees received from our mutual funds, Wealth Management segment, and third

parties for investment management services. Under the new segments, Wealth Management is considered a client of the Asset Management segment and transfer pricing is based on values for similar sized asset management mandates.

- Introduction of **net asset management fees** which offsets management fees with dealer compensation expenses.
- Expenses include **Advisory and business development, Operations and support, and Sub-advisory fees** as previously discussed in this MD&A. Expenses were previously categorized as either commission or non-commission.

Review of the Business

Mackenzie Investments is a diversified asset management solutions provider founded in 1967. We provide investment management and related services with a wide range of investment mandates through a boutique structure and using multiple distribution channels. We are committed to delivering strong investment performance for our clients by drawing on more than 50 years of investment management experience.

Mackenzie earns asset management fees primarily from:

- Management fees earned from its investment funds, sub-advised accounts and institutional clients.
- Fees earned from its mutual funds for administrative services.
- Redemption fees on deferred sales charge and low load units.

The largest component of Mackenzie's revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. Equity based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised and institutional accounts.

2020 DEVELOPMENTS

COVID-19 AND COMMUNICATION

As a result of COVID-19 and the resulting impact to global financial markets, we significantly increased communications to support the independent financial advisors and our institutional clients. Our focus has been to provide capital market and economic updates, ongoing commentary, and access to investment management to ensure they have the tools and resources they need to support their clients. Our multi-boutique approach ensures that investors can find the right solution in any market condition.

ACQUISITIONS

GLC Asset Management Group Ltd. (GLC)

On December 31, 2020, Mackenzie acquired GLC, a Canadian investment management firm with \$37 billion in assets under management, from Great-West Lifeco Inc. (Lifeco) for total consideration of \$185.0 million.

Separately, Lifeco's subsidiary, The Canada Life Assurance Company (Canada Life) acquired the fund management contracts relating to private label Quadrus Group of Funds (QGOF) from Mackenzie for cash consideration of \$30 million. Mackenzie was previously the manager and trustee of the QGOF. Subsequent to the sale, Mackenzie continues to provide investment and administration services to the QGOF.

Benefits of the deal to Mackenzie include the following:

- The net addition of \$30.1 billion in assets under management resulting in Mackenzie becoming one of Canada's largest asset managers.
- Expands Mackenzie's distribution reach to the fast-growing group retirement business channel and establishes Mackenzie as one of the top three providers in Canada of investment solutions to defined contribution plans and other group retirement offerings.
- Enhances Mackenzie's investment capabilities with the addition of a new Canadian Equity boutique.

The acquisition also includes a distribution agreement with Canada Life, positioning Mackenzie as the core investment advisor to its individual and group product offerings and enhancing Canada Life's capabilities and competitiveness.

Greenchip Financial Corporation (Greenchip)

On December 22, 2020, Mackenzie acquired Greenchip, a leading Canadian firm focused exclusively on the environmental

economy since 2007. The acquisition adds \$618 million in assets under management, of which \$435 million was sub-advisory mandates to the Mackenzie Global Environmental Equity Fund. Mackenzie has been a leader in bringing sustainable investing to Canadians, with an evolving suite of funds focused on environmental leadership, gender diversity and sustainability. The acquisition of Greenchip is a natural evolution reflecting the success of Greenchip's sub-advisory relationship to the Mackenzie Global Environmental Equity Fund.

Northleaf Capital Group Ltd. (Northleaf)

The Northleaf investment, which closed on October 28, 2020, expands Mackenzie's capabilities to offer global private equity, private credit and infrastructure investment solutions through our retail advisory channels and financial institution distribution partners.

Northleaf is a global private equity, private credit and infrastructure fund manager, headquartered in Toronto, with more than 150 employees across seven offices in Canada, the U.S., UK and Australia. Northleaf's assets under management at December 31, 2020 was \$14.6 billion.

ASSET MANAGEMENT STRATEGY

Mackenzie seeks to be Canada's preferred global asset management solutions provider and business partner.

Mackenzie's vision: We are committed to the financial success of investors, through *their* eyes. This vision impacts our strategic priorities and drives future business growth. Our strategic mandate is two-fold: win in the Canadian retail space and build meaningful strategic relationships. We aim to achieve this mandate by attracting and fostering the best minds in the investment industry, responding to changing needs of financial advisors and investors with distinctive and innovative solutions, and continuing to deliver institutional quality in everything we do.

To support this vision and strategic mandate our employees strive to:

- Deliver competitive and consistent risk-adjusted performance
- Offer innovative and high quality investment solutions
- Accelerate distribution
- Advance brand leadership
- Drive operational excellence and discipline
- Enable a high-performing and diverse culture

Mackenzie seeks to maximize returns on business investment by focusing our resources in areas that directly impact the success of our strategic mandate: investment management, distribution and client experience.

Our investment management capabilities are delivered through a boutique structure, with separate in-house teams having distinct focuses and diverse styles. Our research and

portfolio management teams are located in Toronto, Montreal, Winnipeg, Boston, Dublin and Hong Kong. In addition to our own investment teams, we supplement our investment capabilities with strategic partners (third party sub-advisors) in selected areas. The development of a broad range of investment capabilities and products is a key strength in supporting the evolving financial needs of investors.

Our business focuses on three key distribution channels: retail, strategic alliances and institutional.

Mackenzie primarily distributes its retail investment products through third-party financial advisors. Our sales teams work with many of the more than 30,000 independent financial advisors and their firms across Canada. Our innovative, comprehensive lineup of investment solutions covers all asset classes and parts of the globe. We offer a range of relevant products and investment solutions designed to help advisors meet the evolving needs of their clients. We regularly introduce new funds and we may merge or streamline our fund offerings to provide enhanced investment solutions.

In addition to our retail distribution team, Mackenzie also has specialty teams focused on strategic alliances and the institutional marketplace.

Within the strategic alliance channel, Mackenzie offers certain series of our mutual funds and provides sub-advisory services to third-party and related party investment programs offered by banks, insurance companies and other investment companies. Strategic alliances with related parties include providing advisory services to IG Wealth Management, Investment Planning Counsel and Great-West Lifeco Inc. (Lifeco) subsidiaries. During the second quarter of 2020, Mackenzie partnered with Wealthsimple and launched two Socially Responsible ETFs. Within the strategic alliance channel, Mackenzie's primary distribution relationship is with the head office of the respective bank, insurance company or investment company.

In the institutional channel, Mackenzie provides investment management services to pension plans, foundations and other institutions. We attract new institutional business through our relationships with pension and management consultants.

Gross sales and redemption activity in strategic alliance and institutional accounts can be more pronounced than in the retail channel, given the relative size and the nature of the distribution relationships of these accounts. These accounts are also subject to ongoing reviews and rebalance activities which may result in a significant change in the level of assets under management.

Mackenzie continues to be positioned to continue to build and enhance our distribution relationships given our team of experienced investment professionals, strength of our distribution network, broad product shelf, competitively priced products and our focus on client experience and investment excellence.

ASSETS UNDER MANAGEMENT

Beginning in the third quarter of 2020, assets managed for the Wealth Management segment are included in total assets under management. Assets managed by Mackenzie for IG Wealth Management were previously excluded from the Mackenzie reportable segment.

The changes in investment fund assets under management are summarized in Table 18 and the changes in total assets under management are summarized in Table 19.

At December 31, 2020, Mackenzie's total assets under management were \$186.8 billion, an all-time high, and an increase of 31.7% from \$141.8 billion last year. Mackenzie's total assets under management excluding the \$30.3 billion related to the net business acquisitions of GLC and Greenchip were \$156.5 billion, an increase of 10.3% from last year. Mackenzie's total assets under management (excluding sub-advisory to Wealth Management) were \$110.9 billion, also an all-time high, and an increase of 62.5% from \$68.3 billion last year. Mackenzie's total assets under management excluding sub-advisory to Wealth Management and net business acquisitions were \$80.6 billion, an increase of 18.1% from last year. The change in Mackenzie's assets under management is determined by investment returns generated for our clients and net contributions from our clients.

CHANGE IN ASSETS UNDER MANAGEMENT – 2020 VS. 2019

Mackenzie's total assets under management at December 31, 2020 were \$186.8 billion, inclusive of \$30.3 billion related to the net business acquisitions noted previously. Mackenzie's total assets under management exclusive of these net acquisitions were \$156.5 billion, an increase of 10.3% from \$141.8 billion at December 31, 2019. Assets under management excluding sub-advisory to the Wealth Management segment and acquisitions were \$80.6 billion, an increase of 18.1% from \$68.3 billion at December 31, 2019.

Investment fund assets under management were \$59.3 billion at December 31, 2020, reflecting the decrease of \$13.2 billion of net assets under management related to the sale of mutual fund contracts in the divestiture of QGOF and the Greenchip acquisition, noted previously. Mackenzie's total investment fund assets excluding the impact of these transactions was \$72.5 billion, an increase of 14.6% from December 30, 2019. Mackenzie's mutual fund assets under management excluding the impact of the transactions noted above were \$68.7 billion at December 31, 2020, an increase of 12.9% from \$60.8 billion at December 31, 2019. Mackenzie's ETF assets excluding ETFs held within IGM investment funds were \$3.8 billion at December 31, 2020, an increase of 59.7% from \$2.4 billion at December 31, 2019. ETF assets inclusive of IGM investment funds were \$8.5 billion at December 31, 2020 compared to \$4.7 billion at December 31, 2019.

In the three months ended December 31, 2020, Mackenzie's mutual fund gross sales were \$4.5 billion, a record high, an increase of 74.0% from \$2.6 billion in 2019. Mutual fund redemptions in the current quarter were \$3.1 billion, an increase of 21.6% from last year. Mutual fund net sales for the three months ended December 31, 2020 were \$1.4 billion, as compared to net sales of \$18 million last year. In the three months ended December 31, 2020, ETF net creations were \$372 million compared to \$202 million last year. Investment fund net sales in the current quarter were \$1.7 billion compared to net sales of \$220 million last year. During the current quarter, investment returns resulted in investment fund assets increasing by \$3.8 billion compared to an increase of \$1.6 billion last year.

During the fourth quarter of 2020, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$625 million, redemptions of \$593 million and net sales of \$32 million. During the fourth quarter of 2019, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$129 million, redemptions of \$165 million and net redemptions of \$36 million. Excluding these transactions in 2020 and 2019, mutual fund gross sales increased by 57.7% in the three months ended December 31, 2020 compared to last year, mutual fund redemptions increased by 5.3% and mutual fund net sales of \$1.3 billion in 2020 compared to mutual fund net sales of \$54 million last year.

Total net sales excluding sub-advisory to the Wealth Management segment for the three months ended December 31, 2020 were \$1.7 billion compared to net sales of \$147 million last year. Excluding the transactions noted above, net sales were \$1.6 billion for the three months ended December 31, 2020 compared to net sales of \$183 million last year. During the current quarter, investment returns resulted in assets increasing by \$4.4 billion compared to an increase of \$1.7 billion last year.

In the twelve months ended December 31, 2020, Mackenzie's mutual fund gross sales were \$13.6 billion, a record high, and an increase of 37.2% from \$9.9 billion in the comparative period last year. Mutual fund redemptions in the current period were \$10.6 billion, an increase of 13.2% from last year. Mutual fund net sales for the twelve months ended December 31, 2020 were \$3.0 billion, as compared to net sales of \$512 million last year. In the twelve months ended December 31, 2020, ETF net creations were \$1.2 billion compared to ETF net creations of \$707 million last year. Investment fund net sales in the current period were \$4.2 billion, compared to \$1.2 billion last year. During the current period, investment returns resulted in investment fund assets increasing by \$5.1 billion as compared to an increase of \$7.0 billion last year.

During the twelve months ended December 31, 2020, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales

TABLE 18: CHANGE IN INVESTMENT FUND ASSETS UNDER MANAGEMENT – ASSET MANAGEMENT⁽¹⁾

THREE MONTHS ENDED (\$ millions)	2020 DEC. 31	2020 SEP. 30	2019 DEC. 31	% CHANGE	
				2020 SEP. 30	2019 DEC. 31
Sales	\$ 4,501	\$ 2,903	\$ 2,587	55.0 %	74.0 %
Redemptions	3,125	2,054	2,569	52.1	21.6
Mutual fund net sales (redemptions) ⁽²⁾	1,376	849	18	62.1	N/M
ETF net creations ⁽³⁾	372	97	202	N/M	84.2
Investment fund net sales (redemptions)⁽⁴⁾	1,748	946	220	84.8	N/M
Change due to divestiture of Quadrus Group of Funds and Greenchip acquisition ⁽⁵⁾	(13,216)	–	–	N/M	N/M
Investment returns	3,789	2,719	1,557	39.4	143.4
Net change in assets	(7,679)	3,665	1,777	N/M	N/M
Beginning assets	66,929	63,264	61,434	5.8	8.9
Ending assets	\$ 59,250	\$ 66,929	\$ 63,211	(11.5) %	(6.3) %
Consists of:					
Mutual funds	\$ 55,462	\$ 63,599	\$ 60,839	(12.8) %	(8.8) %
ETFs	3,788	3,330	2,372	13.8	59.7
Investment funds	\$ 59,250	\$ 66,929	\$ 63,211	(11.5) %	(6.3) %
Daily average investment fund assets	\$ 69,343	\$ 66,026	\$ 62,216	5.0 %	11.5 %

TWELVE MONTHS ENDED (\$ millions)	2020 DEC. 31	2019 DEC. 31	% CHANGE
Sales	\$ 13,565	\$ 9,886	37.2 %
Redemptions	10,609	9,374	13.2
Mutual fund net sales (redemptions) ⁽²⁾	2,956	512	N/M
ETF net creations ⁽³⁾	1,232	707	74.3
Investment fund net sales (redemptions)⁽⁴⁾	4,188	1,219	N/M
Change due to divestiture of Quadrus Group of Funds and Greenchip acquisition ⁽⁵⁾	(13,216)	–	N/M
Investment returns	5,067	6,972	(27.3)
Net change in assets	(3,961)	8,191	N/M
Beginning assets	63,211	55,020	14.9
Ending assets	\$ 59,250	\$ 63,211	(6.3) %
Daily average investment fund assets	\$ 64,617	\$ 60,280	7.2 %

(1) Investment Fund assets under management and net sales excludes investments into Mackenzie mutual funds and ETFs by IGM investment funds.

(2) Mutual funds – During 2020 and 2019, institutional clients, which include Mackenzie mutual funds within their investment offerings, made fund allocation changes:

- Third quarter 2020 – resulted in sales and net sales of \$290 million.
- Fourth quarter 2020 – resulted in sales of \$625 million, redemptions of \$593 million and net sales of \$32 million.
- Year to date 2020 – resulted in sales of \$1.4 billion, redemptions of \$785 million and net sales of \$612 million.
- Fourth quarter and year to date 2019 – resulted in sales of \$129 million, redemptions of \$165 million and net redemptions of \$36 million.

(3) ETFs – during the second and third quarters of 2020, Wealthsimple made allocation changes which resulted in \$370 million of purchases in Mackenzie ETFs and \$325 million of redemptions from Mackenzie's ETFs respectively.

(4) Total investment fund net sales and assets under management exclude Mackenzie mutual fund investments in ETFs.

(5) Sold \$13.4 billion of fund management contracts relating to private label Quadrus Group of Funds (QGOF) to Great-West Lifeco. Inc. Acquired \$183 million in mutual fund assets under management related to acquisition of Greenchip Financial Corporation.

TABLE 19: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – ASSET MANAGEMENT⁽¹⁾

THREE MONTHS ENDED (\$ millions)	% CHANGE				
	2020 DEC. 31	2020 SEP. 30	2019 DEC. 31	2020 SEP. 30	2019 DEC. 31
Assets under management excluding sub-advisory to Wealth Management					
Net sales (redemptions)					
Mutual funds ⁽¹⁾	\$ 1,376	\$ 849	\$ 18	62.1 %	N/M %
ETF net creations ⁽²⁾	372	97	202	N/M	84.2
Investment funds ⁽³⁾	1,748	946	220	84.8	N/M
Sub-advisory, institutional and other accounts ⁽⁴⁾	(75)	(319)	(73)	76.5	(2.7)
Total net sales (redemptions)	1,673	627	147	166.8	N/M
Change due to GLC ⁽⁵⁾	30,300	–	–	N/M	N/M
Investment returns	4,365	3,152	1,718	38.5	154.1
Net change in assets	36,338	3,779	1,865	N/M	N/M
Beginning assets	74,600	70,821	66,392	5.3	12.4
Ending assets	\$ 110,938	\$ 74,600	\$ 68,257	48.7 %	62.5 %
Consolidated Assets under management					
Mutual funds	\$ 55,462	\$ 63,599	\$ 60,839	(12.8) %	(8.8) %
ETFs	3,788	3,330	2,372	13.8	59.7
Investment funds ⁽³⁾	59,250	66,929	63,211	(11.5)	(6.3)
Sub-advisory, institutional and other accounts	51,688	7,671	5,046	N/M	N/M
	110,938	74,600	68,257	48.7	62.5
Sub-advisory to Wealth Management	75,821	72,660	73,575	4.4	3.1
Consolidated assets under management	\$ 186,759	\$ 147,260	\$ 141,832	26.8 %	31.7 %
Average total assets⁽⁶⁾					
Excluding sub-advisory to Wealth Management	\$ 77,186	\$ 73,698	\$ 67,217	4.7 %	14.8 %
Consolidated	150,868	145,750	140,236	3.5	7.6
TWELVE MONTHS ENDED (\$ millions)					
	2020 DEC. 31	2019 DEC. 31	% CHANGE		
Net sales (redemptions)					
Mutual funds ⁽¹⁾	\$ 2,956	\$ 512		N/M %	
ETF net creations ⁽²⁾	1,232	707		74.3	
Investment funds ⁽³⁾	4,188	1,219		N/M	
Sub-advisory, institutional and other accounts ⁽⁴⁾	2,062	(1,492)		N/M	
Total net sales (redemptions)	6,250	(273)		N/M	
Change due to GLC ⁽⁵⁾	30,300	–		N/M	
Investment returns	6,131	7,726		(20.6)	
Net change in assets	42,681	7,453		N/M	
Beginning assets	68,257	60,804		12.3	
Ending assets	\$ 110,938	\$ 68,257		62.5 %	
Average total assets⁽⁶⁾					
Excluding sub-advisory to Wealth Management	\$ 71,402	\$ 65,807		8.5 %	
Consolidated	143,193	138,675		3.3	

(1) Mutual funds – During 2020, institutional clients, which include Mackenzie mutual funds within their investment offerings, made fund allocation changes:

- Third quarter of 2020 – resulted in sales and net sales of \$290 million.
- Fourth quarter of 2020 – Resulted in sales of \$625 million, redemptions of \$593 million and net sales of \$32 million.
- Year to date 2020 – Resulted in sales of \$1.4 billion, redemptions of \$785 million and net sales of \$612 million.
- Fourth quarter and year to date 2019 – Resulted in sales of \$129 million, redemptions of \$165 million and net redemptions of \$36 million.

(2) ETFs – During the second and third quarters of 2020, Wealthsimple made allocation changes which resulted in \$370 million of purchases in Mackenzie ETFs and \$325 million of redemptions from Mackenzie's ETFs respectively.

(3) Investment Fund assets under management and net sales exclude investments into Mackenzie mutual funds and ETFs by IGM investment funds.

(4) Sub-advisory, institutional and other accounts – During the second quarter of 2020, Mackenzie onboarded \$2.6 billion of sub-advisory and institutional wins from various clients. During the third quarter of 2019, MD Management reassigned sub-advisory responsibilities totalling \$1.2 billion on mandates advised by Mackenzie.

(5) Sold \$13.4 billion of fund management contracts relating to private label Quadrus Group of Funds (QGOF) to Great-West Lifeco. Inc. Acquired \$183 million in mutual fund assets under management related to acquisition of Greenchip Financial Corporation. Acquired \$43.5 billion in institutional accounts as part of transaction with Great-West Lifeco Inc.

(6) Based on daily average investment fund assets and month-end average sub-advisory, institutional and other assets.

of \$1.4 billion, redemptions of \$785 million and net sales of \$612 million. During the twelve month ended December 31, 2019, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$129 million, redemptions of \$165 million and net redemptions of \$36 million. Excluding these transactions in 2020 and 2019, mutual fund gross sales increased by 24.7% and mutual fund redemptions increased by 6.7% in the twelve months ended December 31, 2020 compared to last year and mutual fund net sales were \$2.3 billion in the current year compared to \$548 million last year.

Redemptions of long-term mutual funds in the three and twelve months ended December 31, 2020, were \$3.0 billion and \$10.1 billion, respectively, as compared to \$2.5 billion and \$9.0 billion last year. Redemptions of long-term mutual funds excluding mutual fund allocation changes made by third party programs were \$2.4 billion in the three months ended December 31, 2020 and \$9.3 billion in the twelve months ended December 31, 2020. Mackenzie's annualized quarterly redemption rate for long-term mutual funds was 18.2% in the fourth quarter of 2020, compared to 16.4% in the fourth quarter of 2019. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions was 14.5% in the fourth quarter of 2020, compared to 15.0% in the fourth quarter of 2019. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 16.6% at December 31, 2020, as compared to 15.6% last year. Mackenzie's twelve month trailing redemption rate for long-term funds, excluding rebalance transactions, was 15.3% at December 31, 2020, compared to 15.1% at December 31, 2019. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 15.3% at December 31, 2020. Mackenzie and the mutual fund industry saw increased redemptions in the month of March 2020 as a result of COVID-19 and these redemption rates have stabilized and declined during the second and third quarters. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

Total net sales excluding sub-advisory to the Wealth Management segment for the twelve months ended December 31, 2020 were \$6.3 billion, as compared to net redemptions of \$273 million last year. During the twelve months ended December 31, 2020, investment returns resulted in assets increasing by \$6.1 billion compared to an increase of \$7.7 billion last year.

During the second quarter of 2020, Mackenzie onboarded \$2.6 billion of sub-advisory and institutional wins from various

clients. These wins were spread across a diverse range of investment strategies, including Global Equity, U.S. Equity, Fixed Income and Currency Overlay strategies. During the second and third quarters of 2020, Wealthsimple made allocation changes which resulted in net sales of \$45 million into Mackenzie ETFs. Excluding these transactions and the mutual fund allocation changes made by third party programs noted above, total net sales were \$3.0 billion in the twelve months ended December 31, 2020.

During the third quarter of 2019, MD Management reassigned sub-advisory responsibilities totalling \$1.2 billion on mandates advised by Mackenzie. Excluding this transaction and the allocation changes made by third party programs noted above, total net sales were \$0.9 billion in the twelve months ended December 31, 2019.

As at December 31, 2020, Mackenzie's sub-advisory to the Wealth Management segment were \$75.8 billion or 73.6% of total Wealth Management assets under management compared to \$73.6 billion or 74.7% of total Wealth Management assets under management at December 31, 2019.

CHANGE IN ASSETS UNDER MANAGEMENT – Q4 2020 VS. Q3 2020

Mackenzie's total assets under management at December 31, 2020 were \$186.8 billion, inclusive of \$30.3 billion related to the net business acquisitions that closed on December 31, 2020. Mackenzie's total assets under management exclusive of these net acquisitions were \$156.5 billion, an increase of 6.2% from \$147.3 billion at September 30, 2020. Assets under management excluding sub-advisory to the Wealth Management segment and the recent net business acquisitions were \$80.6 billion, an increase of 8.1% from \$74.6 billion at September 30, 2020.

Investment fund assets under management were \$59.3 billion at December 31, 2020, reflecting the decrease of \$13.2 billion of net assets under management related to the sale of mutual fund contracts in the divestiture of QGOF and the Greenchip acquisition noted previously. Mackenzie's total investment fund assets exclusive of these transactions was \$72.5 billion, an increase of 8.3% from \$66.9 billion at September 30, 2020. Mackenzie's mutual fund assets under management excluding the transactions noted above were \$68.7 billion at December 31, 2020, an increase of 8.0% from \$63.6 billion at September 30, 2020. Mackenzie's ETF assets were \$3.8 billion at December 31, 2020 compared to \$3.3 billion at September 30, 2020. ETF assets inclusive of IGM investment funds were \$8.5 billion at December 31, 2020 compared to \$7.5 billion at September 30, 2020.

For the quarter ended December 31, 2020, Mackenzie mutual fund gross sales were \$4.5 billion, an increase of 55.0% from the third quarter of 2020. Mutual fund redemptions were \$3.1 billion, an increase of 52.1% from the third quarter of 2020. Net sales of Mackenzie mutual funds for the current quarter

were \$1.4 billion compared with net sales of \$849 million in the previous quarter.

During the current quarter of 2020, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$625 million, redemptions of \$593 million and net sales of \$32 million. During the third quarter of 2020, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross and net sales of \$290 million. Excluding these mutual fund allocation changes made by third party programs during the fourth and third quarters of 2020, mutual fund gross sales increased 48.3%, redemptions increased 23.3% and mutual fund net sales were \$1.3 billion in the current quarter compared to net sales of \$559 million in the previous quarter.

Redemptions of long-term mutual fund assets in the current quarter were \$3.0 billion, compared to \$1.9 billion in the third quarter of 2020. Mackenzie's annualized quarterly redemption rate for long-term mutual funds for the current quarter was 18.2% compared to 12.6% in the third quarter. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions was 14.5% in the fourth quarter of 2020. Net sales of long-term funds for the current quarter were \$1.3 billion compared to net sales of \$784 million in the previous quarter.

For the quarter ended December 31, 2020, Mackenzie ETF net creations were \$372 million compared to \$97 million in the third quarter. Excluding the Wealthsimple allocation changes during the third quarter of 2020 previously discussed, ETF net creations were \$422 million in the quarter ended September 30, 2020.

Investment fund net sales in the current quarter were \$1.7 billion compared to net sales of \$0.9 billion in the third quarter. Excluding the mutual fund and ETF allocation changes made by third party programs, investment fund net sales of \$1.7 billion in the current quarter compared to net sales of \$1.0 billion in the prior quarter.

As at December 31, 2020, Mackenzie's sub-advisory to the Wealth Management segment were \$75.8 billion or 73.6% of total Wealth Management assets under management compared to \$72.7 billion or 74.1% of total Wealth Management assets under management at September 30, 2020.

INVESTMENT MANAGEMENT

Mackenzie has \$186.8 billion in assets under management at December 31, 2020, including \$75.8 billion of sub-advisory mandates to the Wealth Management segment. It has teams located in Toronto, Montreal, Winnipeg, Boston, Dublin and Hong Kong.

We continue to deliver our investment offerings through a boutique structure, with separate in-house investment teams

which each have a distinct focus and investment approach. This boutique approach promotes diversification of styles and ideas and provides Mackenzie with a breadth of capabilities. Oversight is conducted through a common process intended to promote superior risk-adjusted returns over time. This oversight process focuses on i) identifying and encouraging each team's performance edge, ii) promoting best practices in portfolio construction, and iii) emphasizing risk management. Upon the retirement of the Chief Investment Officer (CIO) at December 31, 2020, Mackenzie introduced a two CIO model that supports its growing size and complexity. This new model will include one CIO dedicated to Fixed Income, Quantitative and Multi-Asset Strategies and the other CIO dedicated to Equities and ensure that our Investment Management teams benefit from independent leadership of their boutiques. At the same time, the two CIO's will partner on key areas, including talent, innovation, technology and data, investment operations and a collaborative approach to solutions selling.

Our investment team currently consists of sixteen boutiques. Initiatives during 2020 include the following:

- Addition of a new Canadian Equity boutique with the acquisition of GLC at December 31, 2020.
- Addition of a new Greenchip boutique with the acquisition of Greenchip Financial Corp. at December 22, 2020.

The investment in Northleaf will also enhance our investment capabilities by offering global private equity, private credit and infrastructure investment solutions to our clients.

In addition to our own investment teams, Mackenzie supplements investment capabilities through the use of third party sub-advisors and strategic beta index providers in selected areas. These include Putnam Investments Inc., TOBAM, China AMC, Impax Asset Management LLC and Rockefeller Capital Management.

Long-term investment performance is a key measure of Mackenzie's ongoing success. At December 31, 2020, 78.3% of Mackenzie mutual fund assets were rated in the top two performance quartiles for the one year time frame, 67.2% for the three year time frame and 60.8% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar[†] fund ranking service. At December 31, 2020, 82.5% of Mackenzie mutual fund assets measured by Morningstar[†] had a rating of three stars or better and 59.6% had a rating of four or five stars. This compared to the Morningstar[†] universe of 84.6% for three stars or better and 50.1% for four and five star funds at December 31, 2020. These ratings exclude the Quadrus Group of Funds[†].

Mackenzie was once again recognized for industry leading performance, winning five 2020 Refinitiv Lipper Awards. The award honours funds that lead in delivering strong, risk-adjusted performance relative to their peers:

- Mackenzie Canadian Growth Balanced Fund Series A – Best three-year and five-year performance in the Canadian Equity Balanced category. This fund is co-managed by Mackenzie's Bluewater, Fixed Income and Asset Allocation Teams.
- Mackenzie Precious Metals Class Series A – Best ten-year performance in the Precious Metals Equity category. This fund is managed by Mackenzie's Resource Team.
- Mackenzie Maximum Diversification Canada Index ETF and Mackenzie Maximum Diversification All World Developed Index ETF – Best three-year performance in the ETF Equity category. This ETF is managed by Mackenzie's Asset Allocation Team.

In addition, eleven of Mackenzie's mutual funds and ETFs were recognized for industry leading performance at the Fundata FundGrade A+ awards.

PRODUCTS

Mackenzie continues to evolve its product shelf by providing enhanced investment solutions for financial advisors to offer their clients. In 2020, Mackenzie launched a number of new products and merged mutual funds to streamline and strengthen its product shelf.

EXCHANGE TRADED FUNDS

The addition of Exchange Traded Funds (ETF) has complemented Mackenzie's broad and innovative fund line-up and reflects its investor-focused vision to provide advisors and investors with new solutions to drive investor outcomes and achieve their personal goals. These ETFs offer investors another investment option when building long-term diversified portfolios.

During 2020, Mackenzie launched eleven new ETFs and two USD series. These ETFs fill meaningful gaps in the product line-up as well as provide unique exposures in the Canadian market. With Mackenzie's continued focus on multi-channel distribution, many of these ETFs cater to multi-channel opportunities.

- Wealthsimple North American Socially Responsible Index ETF
- Wealthsimple Developed Markets excluding North America Socially Responsible Index
- Mackenzie U.S. Aggregate Bond Index ETF (CAD-Hedged)
- Mackenzie Developed ex-North America Aggregate Bond Index ETF (CAD-Hedged)
- Mackenzie Developed Markets Real Estate Index ETF
- Mackenzie Global Fixed Income Allocation ETF
- Mackenzie Balanced Allocation ETF
- Mackenzie Conservative Allocation ETF
- Mackenzie Growth Allocation ETF
- Mackenzie Global Infrastructure Index ETF

- Mackenzie Global Sustainable Dividend Index ETF (CAD units and USD units)
- Mackenzie US Large Cap Equity ETF (USD units)

Mackenzie's current line-up consists of 41 ETFs: 22 active and strategic beta ETFs and 19 traditional index ETFs. ETF assets under management ended the quarter at \$8.5 billion, inclusive of \$4.7 billion in investments from IGM mutual funds. This ranks Mackenzie in sixth place in the Canadian ETF industry for assets under management.

MUTUAL FUNDS

Mackenzie manages its product shelf through new fund launches and fund mergers to streamline fund offerings for advisors and investors.

During 2020, Mackenzie launched five mutual funds:

- Mackenzie Global Small-Mid Cap Fund
- Mackenzie Alternative Enhanced Yield Fund
- Mackenzie US Mid Cap Opportunities Fund
- Mackenzie US Mid Cap Opportunities Currency Neutral Fund
- Mackenzie Private Equity Replication Fund

In December of 2020, Mackenzie launched a Private Equity Replication Fund. This fund seeks to provide access to the amplified return and managed volatility characteristics of U.S. private equity buyouts. It does this by replicating key elements of the private equity investment profile including active exposures to specific industries, leverage, and volatility management. The fund invests in U.S. publicly traded companies that possess characteristics similar to what private equity firms select for investments, such as high quality companies with elevated profitability that trade at attractive valuations.

Product changes during 2020 include the following:

- On October 29, the Mackenzie US Small-Mid Cap Growth Class and the Mackenzie US Small-Mid Cap Growth Currency Neutral Class were soft capped due to capacity constraints. These funds have delivered strong investment performance versus their benchmark and peers, which has led to sustained asset growth in recent years. Closing the funds to new investors will help to ensure that the integrity of the portfolio managers' investment process is protected, and the fund continues to meet its objectives. New investors will be able to access US mid caps through the Mackenzie US Mid Cap Opportunities Fund and the US Mid Cap Opportunities Currency Neutral Fund, which were launched during 2020. The funds are managed by the same Mackenzie Growth Team with a focus on high-quality innovative US mid cap companies.
- Early in the fourth quarter, the Mackenzie Growth Fund merged into the Mackenzie Canadian Growth Fund to streamline the product shelf for investors and advisors.

Review of Segment Operating Results

The Asset Management segment includes revenue earned on advisory mandates to the Wealth Management segment and investments into Mackenzie mutual fund and ETFs by the Wealth Management segment.

The Asset Management segment earnings before interest and taxes are presented in Table 20.

2020 VS. 2019

REVENUES

Asset management fees are classified as either Asset management fees – third party or Asset management fees – Wealth Management.

- Net asset management fees – third party is comprised of the following:
 - Asset management fees – third party consists of management and administration fees earned from our investment funds and management fees from our third party sub-advisory, institutional and other accounts. The largest component is management fees from our investment funds. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. For example, equity-based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised and institutional accounts. The majority of Mackenzie's mutual fund assets are retail and sold through third party financial advisors.
 - Redemption fees – consists of fees earned from the redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Redemption fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Redemption fees for low load assets range from 2.0% to 3.0% in the first year and decrease to zero after two or three years, depending on the purchase option.
 - Dealer compensation expenses – consists of asset-based and sales-based compensation. Asset-based compensation represents trailing commissions paid to dealers on certain classes of retail mutual funds and are calculated as a percentage of mutual fund assets under management. These fees vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Sales based compensation are paid to dealers on the sale of mutual funds under the deferred sales charge purchase option and on a low load purchase option.

- Asset management fees – Wealth Management consists of sub-advisory fees earned from the Wealth Management segment.

Net asset management fees – third party were \$137.7 million for the three months ended December 31, 2020, an increase of \$8.2 million or 6.3% from \$129.5 million last year. The increase in net asset management fees – third party was primarily due to a 14.8% increase in average assets under management partially offset by a decline in the effective net asset management fee rate. Mackenzie's net asset management fee rate was 70.8 basis points for the three months December 31, 2020 compared to 76.7 basis points in the comparative period in 2019. The decline in the net asset management fee rate in the current quarter was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products. Contributing to the increase in non-retail assets was the onboarding of \$2.6 billion of sub-advisory and institutional wins during the second quarter of 2020.

Net asset management fees – third party were \$513.4 million for the year ended December 31, 2020, an increase of \$14.0 million or 2.8% from \$499.4 million last year. The increase in net asset management fees – third party was primarily due to an 8.5% increase in average assets under management partially offset by a decline in the effective net asset management fee rate. Mackenzie's net asset management fee rate was 71.8 basis points for the year ended December 31, 2020 compared to 76.0 basis points in the comparative period in 2019. The decrease in the net asset management fee rate in the current period was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products.

Management fees – Wealth Management were \$25.8 million for the three months ended December 31, 2020, a decline of \$0.4 million or 1.5% from \$26.2 million last year. The decline in management fees was due to a decline in the effective management fee rate partially offset by a 0.9% increase in average assets under management. Mackenzie's management fee rate was 13.9 basis points for the three months December 31, 2020 compared to 14.2 basis points in the comparative period in 2019. The decrease in the management fee rate was due to a change in the composition of assets under management.

Management fees – Wealth Management were \$100.6 million for the year ended December 31, 2020, a decline of \$3.6 million or 3.5% from \$104.2 million last year. The decline in management fees was due to a 1.5% decline in average assets under management coupled with a decline in the effective management fee rate. Mackenzie's management fee rate was 14.0 basis points for the year ended December 31, 2020 compared to 14.3 basis points in the comparative period in 2019. The decrease in the management fee rate was due to a change in the composition of assets under management.

TABLE 20: OPERATING RESULTS – ASSET MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2020	2020	2019	% CHANGE	
	DEC. 31	SEP. 30	DEC. 31	2020 SEP. 30	2019 DEC. 31
Revenues					
Asset management					
Asset management fees – third party	\$ 215.1	\$ 206.4	\$ 202.0	4.2 %	6.5 %
Redemption fees	1.2	0.9	1.4	33.3	(14.3)
	216.3	207.3	203.4	4.3	6.3
Dealer compensation expenses					
Asset-based compensation	(73.5)	(70.6)	(68.3)	4.1	7.6
Sales-based compensation	(5.1)	(4.9)	(5.6)	4.1	(8.9)
	(78.6)	(75.5)	(73.9)	4.1	6.4
Net asset management fees – third party	137.7	131.8	129.5	4.5	6.3
Asset management fees – Wealth Management	25.8	25.8	26.2	–	(1.5)
Net asset management	163.5	157.6	155.7	3.7	5.0
Net investment income and other	1.0	1.1	(0.3)	(9.1)	N/M
	164.5	158.7	155.4	3.7	5.9
Expenses					
Advisory and business development	28.3	16.0	22.5	76.9	25.8
Operations and support	74.6	69.7	77.7	7.0	(4.0)
Sub-advisory	1.5	2.5	2.7	(40.0)	(44.4)
	104.4	88.2	102.9	18.4	1.5
Earnings before interest and taxes	\$ 60.1	\$ 70.5	\$ 52.5	(14.8) %	14.5 %
TWELVE MONTHS ENDED (\$ millions)			2020 DEC. 31	2019 DEC. 31	% CHANGE
Revenues					
Asset management					
Asset management fees – third party			\$ 808.4	\$ 786.6	2.8 %
Redemption fees			4.5	5.7	(21.1)
			812.9	792.3	2.6
Dealer compensation expenses					
Asset-based compensation			(277.7)	(268.1)	3.6
Sales-based compensation			(21.8)	(24.8)	(12.1)
			(299.5)	(292.9)	2.3
Net asset management fees – third party			513.4	499.4	2.8
Asset management fees – Wealth Management			100.6	104.2	(3.5)
Net asset management			614.0	603.6	1.7
Net investment income and other			2.9	4.2	(31.0)
			616.9	607.8	1.5
Expenses					
Advisory and business development			80.2	79.9	0.4
Operations and support			293.7	295.2	(0.5)
Sub-advisory			8.7	10.8	(19.4)
			382.6	385.9	(0.9)
Earnings before interest and taxes			\$ 234.3	\$ 221.9	5.6 %

Net investment income and other primarily includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was \$1.0 million for the three months ended December 31, 2020 compared to (\$0.3) million last year and was \$2.9 million for the year ended December 31, 2020, compared to \$4.2 million last year.

EXPENSES

Mackenzie incurs advisory and business development expenses that primarily includes wholesale distribution activities and these costs vary directly with assets or sales levels. Advisory and business development expenses were \$28.3 million for the three months ended December 31, 2020, an increase of \$5.8 million or 25.8% from \$22.5 million in 2019. The increase in expense during the current quarter is due to higher wholesaler commissions attributed to record high level of sales partially offset by lower travel and entertainment expenses. Expenses for the year ended December 31, 2020 were \$80.2 million, an increase of \$0.3 million or 0.4% from \$79.9 million last year.

Operations and support includes costs associated with business operations, including technology and business processes, in-house investment management and product shelf management, corporate management and support functions. These expenses primarily reflect compensation, technology and other service provider expenses. Operations and support expenses were \$74.6 million for the three months ended December 31, 2020, a decrease of \$3.1 million or 4.0% from \$77.7 million in 2019. Expenses for the year ended December 31, 2020 were \$293.7 million, a decline of \$1.5 million or 0.5% from \$295.2 million last year.

Sub-advisory expenses were \$1.5 million for the three months ended December 31, 2020, compared to \$2.7 million in 2019. Expenses for the year ended December 31, 2020 were \$8.7 million, compared to \$10.8 million last year.

Q4 2020 VS. Q3 2020

REVENUES

Net asset management fees – third party were \$137.7 million for the current quarter, an increase of \$5.9 million or 4.5% from \$131.8 million in the third quarter. The increase in net asset management fees – third party was primarily due to a 4.7% increase in average assets under management slightly offset by a decline in the effective net asset management fee rate. Mackenzie's net asset management fee rate was 70.8 basis points for the current quarter compared to 71.0 basis points in the third quarter.

Management fees – Wealth Management were \$25.8 million in the current quarter, consistent with the third quarter. The 2.3% increase in average assets under management was offset by a decline in the effective management fee rate. The management fee rate was 13.9 basis points in the current quarter compared to 14.2 basis points in the third quarter.

Net investment income and other was \$1.0 million for the current quarter, a decrease of \$0.1 million from the third quarter.

EXPENSES

Advisory and business development expenses were \$28.3 million for the current quarter, an increase of \$12.3 million or 76.9% from \$16.0 million in the third quarter. The increase during the current quarter is due to higher wholesaler commissions attributable to record high level of sales during the quarter.

Operations and support expenses were \$74.6 million for the current quarter, an increase of \$4.9 million or 7.0% from \$69.7 million compared to the third quarter.

Sub-advisory expenses were \$1.5 million for the current quarter, compared to \$2.5 million in the third quarter.

Strategic Investments and Other

Review of Segment Operating Results

The Strategic Investments and Other segment includes investments in Great-West Lifeco Inc. (Lifeco), China Asset Management Co., Ltd. (China AMC), Northleaf Capital Group Ltd. (Northleaf), Wealthsimple Financial Corp., Portag3 Ventures LPs, and unallocated capital.

Earnings from the Strategic Investments and Other segment include the Company's proportionate share of earnings of its associates, Lifeco, China AMC and Northleaf as well as net investment income on unallocated capital.

In the third quarter of 2020, the Company sold its 24.8% equity interest in Personal Capital as discussed in the Consolidated Financial Position section of this MD&A. The gain on sale is excluded from segment results.

Assets held by the Strategic Investments and Other segment are included in Table 21.

Unallocated capital represents capital not allocated to any of the operating companies and which would be available for investment, debt repayment, distribution to shareholders or other corporate purposes. This capital is invested in highly liquid, high quality financial instruments in accordance with the Company's Investment Policy.

Strategic investments and other segment earnings before interest and taxes are presented in Table 22.

2020 VS. 2019

The proportionate share of associates' earnings increased by \$7.5 million in the fourth quarter of 2020 compared to the fourth quarter of 2019 and increased by \$24.6 million in the year ended December 31, 2020, compared to 2019. These earnings reflect equity earnings from Lifeco, China AMC and, until the third quarter of 2020, Personal Capital, as discussed in the Consolidated Financial Position section of this MD&A. The increase in the fourth quarter resulted primarily from increases in the proportionate share of China AMC's earnings of \$4.6 million and an increase in Personal Capital reflecting the sale of the Company's investment in the second quarter of 2020. The increase in the twelve months ended December 31, 2020, resulted from the increases in the proportionate share of China AMC's earnings of \$11.4 million and Personal Capital's earnings of \$12.2 million. Net investment income and other decreased to \$1.1 million in the fourth quarter of 2020 compared to \$2.6 million in 2019. For the twelve month period, net investment income and other decreased to \$6.0 million compared to \$7.3 million in 2019.

Q4 2020 VS. Q3 2020

The proportionate share of associates' earnings was \$40.1 million in the fourth quarter of 2020, a decrease of \$3.4 million from the third quarter of 2020. Net investment income and other was \$1.1 million in the fourth quarter of 2020, compared to \$0.6 million in the third quarter.

TABLE 21: TOTAL ASSETS – STRATEGIC INVESTMENTS AND OTHER

(\$ millions)	2020 DECEMBER 31	2019 DECEMBER 31
Investments in associates		
Lifeco	\$ 962.4	\$ 896.7
China AMC	720.3	662.7
Northleaf	248.5	–
Personal Capital	–	194.5
	1,931.2	1,753.9
FVTOCI investments		
Wealthsimple (direct investment only)	511.6	236.2
Portag3 and other investments	81.7	64.9
	593.3	301.1
Unallocated capital and other	240.6	321.0
Total assets	\$ 2,765.1	\$ 2,376.0
Lifeco fair value	\$ 1,133.2	\$ 1,241.8

TABLE 22: OPERATING RESULTS – STRATEGIC INVESTMENTS AND OTHER

THREE MONTHS ENDED (\$ millions)	2020 DEC. 31	2020 SEP. 30	2019 DEC. 31	% CHANGE	
				2020 SEP. 30	2019 DEC. 31
Revenues					
Net investment income and other	\$ 1.1	\$ 0.6	\$ 2.6	83.3 %	(57.7) %
Proportionate share of associates' earnings					
Investment in Lifeco	27.3	33.0	29.9	(17.3)	(8.7)
Investment in China AMC	11.8	10.5	7.2	12.4	63.9
Investment in Northleaf	1.0	–	–	N/M	N/M
Investment in Personal Capital	–	–	(4.5)	–	100.0
	40.1	43.5	32.6	(7.8)	23.0
	41.2	44.1	35.2	(6.6)	17.0
Expenses					
Operations and support	0.9	1.2	0.6	(25.0)	50.0
Earnings before interest and taxes	\$ 40.3	\$ 42.9	\$ 34.6	(6.1) %	16.5 %
TWELVE MONTHS ENDED (\$ millions)	2020 DEC. 31		2019 DEC. 31	% CHANGE	
Revenues					
Net investment income and other		\$ 6.0	\$ 7.3		(17.8) %
Proportionate share of associates' earnings					
Investment in Lifeco		109.1	109.1		–
Investment in China AMC		41.5	30.1		37.9
Investment in Northleaf		1.0	–		N/M
Investment in Personal Capital		(4.6)	(16.8)		72.6
		147.0	122.4		20.1
		153.0	129.7		18.0
Expenses					
Operations and support		4.1	2.2		86.4
Earnings before interest and taxes		\$ 148.9	\$ 127.5		16.8 %

Consolidated Financial Position

IGM Financial's total assets were \$16.1 billion at December 31, 2020, compared to \$15.4 billion at December 31, 2019.

OTHER INVESTMENTS

The composition of the Company's securities holdings is detailed in Table 23.

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVTOCI)

Gains and losses on FVTOCI investments are recorded in Other comprehensive income.

Corporate Investments

Corporate investments is primarily comprised of the Company's investments in Wealthsimple Financial Corp., and Portag3 Ventures LP and Portag3 Ventures II LP.

Portag3 Ventures LP and Portag3 Ventures II LP (Portag3) are early-stage investment funds dedicated to backing innovating financial services companies and are controlled by Power Financial Corporation, a subsidiary of Power Corporation of Canada. As at December 31, 2020, the Company had invested a total of \$53.1 million in Portag3.

Wealthsimple Financial Corp. (Wealthsimple) is an online investment manager that provides financial investment guidance. As at December 31, 2020, the Company had invested a total of \$186.9 million in Wealthsimple through a limited partnership controlled by Power Financial Corporation. The investment is classified at Fair value through other comprehensive income.

On October 14, 2020, Wealthsimple announced a \$114 million equity fundraising led by TCV, one of the largest growth equity investors focused on technology, along with Greylock, Meritech, Two Sigma Ventures and existing investor Allianz X. The new investors have an ownership stake of 7.4%. The purchase price associated with this fundraising valued the common equity of Wealthsimple at \$1.5 billion (\$1.4 billion pre-money valuation).

IGM Financial Inc. is the largest shareholder in Wealthsimple and holds, directly and indirectly, a 36% interest. As a result of this valuation, the fair value of the Company's investment increased by \$298 million and is recorded at \$550 million at December 31, 2020.

The total fair value of Corporate investments of \$593 million is presented net of certain costs incurred within the limited partnership structures holding the underlying investments.

FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Securities classified as FVTPL include equity securities and proprietary investment funds. Gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Certain proprietary investment funds are consolidated where the Company has made the assessment that it controls the investment fund. The underlying securities of these funds are classified as FVTPL.

LOANS

The composition of the Company's loans is detailed in Table 24.

Loans consisted of residential mortgages and represented 39.4% of total assets at December 31, 2020, compared to 46.8% at December 31, 2019.

Loans measured at amortized cost are primarily comprised of residential mortgages sold to securitization programs sponsored by third parties that in turn issue securities to investors. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$6.2 billion at December 31, 2020, compared to \$6.9 billion at December 31, 2019.

The Company holds loans pending sale or securitization. Loans measured at fair value through profit or loss are residential mortgages held temporarily by the Company pending sale. Loans held for securitization are carried at amortized cost. Total

TABLE 23: OTHER INVESTMENTS

(\$ millions)	DECEMBER 31, 2020		DECEMBER 31, 2019	
	COST	FAIR VALUE	COST	FAIR VALUE
Fair value through other comprehensive income				
Corporate investments	\$ 251.4	\$ 593.3	\$ 245.0	\$ 301.2
Fair value through profit or loss				
Equity securities	1.5	1.5	1.6	1.8
Proprietary investment funds	35.3	37.5	51.3	54.4
	36.8	39.0	52.9	56.2
	\$ 288.2	\$ 632.3	\$ 297.9	\$ 357.4

TABLE 24: LOANS

(\$ millions)	DECEMBER 31, 2020	DECEMBER 31, 2019
Amortized cost	\$ 6,329.4	\$ 7,198.7
Less: Allowance for expected credit losses	0.8	0.7
	6,328.6	7,198.0
Fair value through profit or loss	3.3	–
	\$ 6,331.9	\$ 7,198.0

loans being held pending sale or securitization are \$334.5 million at December 31, 2020, compared to \$344.5 million at December 31, 2019.

Residential mortgages originated by IG Wealth Management are funded primarily through sales to third parties on a fully serviced basis, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization programs. At December 31, 2020, IG Wealth Management serviced \$11.0 billion of residential mortgages, including \$2.4 billion originated by subsidiaries of Lifeco.

SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by IG Wealth Management mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company securitizes residential mortgages through the CMHC sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) and the Canada Mortgage Bond Program (CMB Program) and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. The Company retains servicing responsibilities and certain elements of credit risk and prepayment risk associated with the transferred assets. The Company's credit risk on its securitized mortgages is partially mitigated through the use of insurance. Derecognition of financial assets in accordance with IFRS is based on the transfer of risks and rewards of ownership. As the Company has retained prepayment risk and certain elements of credit risk associated with the Company's securitization transactions through the CMB and ABCP programs, they are accounted for as secured borrowings. The Company records the transactions under these programs as follows: i) the mortgages and related obligations are carried at amortized cost, with interest income and interest expense, utilizing the effective interest rate method, recorded over the term of the mortgages, ii) the component of swaps entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal, are recorded at fair value, and iii) cash reserves held under the ABCP program are carried at amortized cost.

In the fourth quarter of 2020, the Company securitized loans through its mortgage banking operations with cash proceeds of \$422.8 million compared to \$277.8 million in 2019. Additional information related to the Company's securitization activities, including the Company's hedges of related reinvestment and interest rate risk, can be found in the Financial Risk section of this MD&A and in Note 6 to the Annual Financial Statements.

INVESTMENT IN ASSOCIATES

Great-West Lifeco Inc. (Lifeco)

At December 31, 2020, the Company held a 4% equity interest in Lifeco. IGM Financial and Lifeco are controlled by Power Corporation of Canada.

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence. Changes in the carrying value for the three and twelve months ended December 31, 2020 compared with 2019 are shown in Table 25.

In December 2020, Lifeco recorded a gain in relation to the revaluation of a deferred tax asset less certain restructuring and transaction costs. The Company's after-tax proportionate share of these adjustments was \$3.4 million.

In April 2019, the Company participated on a proportionate basis in the Lifeco substantial issuer bid by selling 2,400,255 of its shares in Lifeco for proceeds of \$80.4 million.

In June 2019, Lifeco recorded a one-time loss in relation to the sale of substantially all of its United States individual life insurance and annuity business. In December 2019, Lifeco recorded one-time charges in relation to the revaluation of a deferred tax asset, restructuring costs and the net gain on the Scottish Friendly transaction. The Company's after-tax proportionate share of these charges was \$17.2 million.

China Asset Management Co., Ltd. (China AMC)

Founded in 1998 as one of the first fund management companies in China, China AMC has developed and maintained a position among the market leaders in China's asset management industry.

TABLE 25: INVESTMENT IN ASSOCIATES

(\$ millions)	DECEMBER 31, 2020					DECEMBER 31, 2019			
	LIFECO	CHINA AMC	PERSONAL CAPITAL	NORTHLEAF	TOTAL	LIFECO	CHINA AMC	PERSONAL CAPITAL	TOTAL
THREE MONTHS ENDED									
Carrying value, October 1	\$ 942.8	\$ 713.0	\$ –	\$ –	\$ 1,655.8	\$ 898.7	\$ 651.2	\$ 202.8	\$ 1,752.7
Investment	–	–	–	247.5	247.5	–	–	–	–
Dividends	(16.3)	–	–	–	(16.3)	(15.4)	–	–	(15.4)
Proportionate share of:									
Earnings (losses) ⁽¹⁾	27.3	11.8	–	1.0 ⁽²⁾	40.1	29.9	7.2	(4.5)	32.6
Associate's adjustments ⁽¹⁾	3.4	–	–	–	3.4	–	–	–	–
Associate's one-time charges ⁽¹⁾	–	–	–	–	–	(9.2)	–	–	(9.2)
Other comprehensive income (loss) and other adjustments	5.2	(4.5)	–	–	0.7	(7.3)	4.3	(3.8)	(6.8)
Carrying value, December 31	\$ 962.4	\$ 720.3	\$ –	\$ 248.5	\$ 1,931.2	\$ 896.7	\$ 662.7	\$ 194.5	\$ 1,753.9
TWELVE MONTHS ENDED									
Carrying value, January 1	\$ 896.7	\$ 662.7	\$ 194.5	\$ –	\$ 1,753.9	\$ 967.8	\$ 683.5	\$ –	\$ 1,651.3
Investment	–	–	–	247.5	247.5	–	–	–	–
Transfer from corporate investments (FVTOCI)	–	–	–	–	–	–	–	217.0	217.0
Proceeds from substantial issuer bid	–	–	–	–	–	(80.4)	–	–	(80.4)
Dividends	(65.4)	(13.7)	–	–	(79.1)	(62.6)	(10.3)	–	(72.9)
Proportionate share of:									
Earnings (losses) ⁽¹⁾	109.1	41.5	(4.6)	1.0	147.0	109.1	30.1	(16.8)	122.4
Associate's adjustments ⁽¹⁾	3.4	–	–	–	3.4	–	–	–	–
Associate's one-time charges ⁽¹⁾	–	–	–	–	–	(17.2)	–	–	(17.2)
Other comprehensive income (loss) and other adjustments	18.6	29.8	8.8	–	57.2	(20.0)	(40.6)	(5.7)	(66.3)
Disposition	–	–	(198.7)	–	(198.7)	–	–	–	–
Carrying value, December 31	\$ 962.4	\$ 720.3	\$ –	\$ 248.5	\$ 1,931.2	\$ 896.7	\$ 662.7	\$ 194.5	\$ 1,753.9

(1) The proportionate share of earnings from the Company's investment in associates is recorded in the Strategic Investments and Other segment.

(2) The Company's proportionate share of Northleaf's earnings, net of Non-controlling interest, was \$0.8 million.

China AMC's total assets under management, excluding subsidiary assets under management, were RMB¥ 1,461.1 billion (\$285.1 billion) at December 31, 2020, representing an increase of 41.6% (CAD\$ increase of 48.1%) from RMB¥ 1,032.1 billion (\$192.4 billion) at December 31, 2019.

The equity method is used to account for the Company's 13.9% equity interest in China AMC, as it exercises significant influence. Changes in the carrying value for the three and twelve months ended December 31, 2020 are shown in Table 25. The change in other comprehensive income of negative \$4.5 million in the three month period ended December 31, 2020 was due to a 0.5% depreciation of the Chinese yuan relative to the Canadian dollar.

Personal Capital Corporation (Personal Capital)

During the third quarter, the Company sold its equity interest in Personal Capital to a subsidiary of Lifeco, Empower Retirement, for proceeds of \$232.8 million (USD \$176.2 million) and up to an additional USD \$24.6 million in consideration subject to Personal Capital achieving certain target growth objectives.

As a result of the sale, the Company has derecognized its investment in Personal Capital and recorded an accounting gain of \$37.2 million (\$31.4 million net of tax) in Net investment income and other in the Annual Financial Statements.

The Company's economic gain based on the cost of its investment in Personal Capital of \$189.1 million was approximately \$43.7 million (\$37.9 million net of tax).

Northleaf Capital Group Ltd. (Northleaf)

On October 28, 2020, the Company's subsidiary, Mackenzie, together with Lifeco, acquired a non-controlling interest in Northleaf, a global private equity, private credit and infrastructure fund manager headquartered in Toronto.

The transaction was executed through an acquisition vehicle 80% owned by Mackenzie and 20% owned by Lifeco for cash consideration of \$241 million and up to an additional \$245 million in consideration at the end of five years subject to the business achieving exceptional growth in certain performance measures over the period. Any additional consideration will be recognized as expense over the five year period based on the fair value of the expected payment, which is revalued at each reporting period date.

The acquisition vehicle acquired a 49.9% voting interest and a 70% economic interest in Northleaf. Mackenzie and Lifeco have an obligation and right to purchase the remaining equity and

voting interest in Northleaf commencing in approximately five years and extending into future periods. The equity method is used to account for the acquisition vehicle's 70% economic interest as it exercises significant influence. Significant influence arises from board representation, participating in the policy making process and shared strategic initiatives.

The Company controls the acquisition vehicle therefore it recognizes the full 70% economic interest in Northleaf and recognizes Non-controlling interest (NCI) related to Lifeco's net interest in Northleaf of 14%. Net of NCI, IGM's investment at December 31, 2020 was \$199.6 million, comprised of \$192.6 million in cash consideration, \$6.2 million in capitalized transaction costs and proportionate share of 2020 earnings of \$0.8 million.

Northleaf's assets under management, including invested capital and uninvested commitments, were \$14.6 billion as at December 31, 2020.

Consolidated Liquidity and Capital Resources

LIQUIDITY

Cash and cash equivalents totalled \$771.6 million at December 31, 2020 compared with \$720.0 million at December 31, 2019. Cash and cash equivalents related to the Company's deposit operations were \$5.2 million at December 31, 2020, compared to \$2.2 million at December 31, 2019, as shown in Table 26.

Client funds on deposit represents cash balances held by clients within their investment accounts and with the offset included in deposit liabilities. The increase in the balance since December 31, 2019 is primarily due to market volatility that has caused clients to hold larger cash positions and due to the migration of IG Wealth clientele to nominee accounts that may hold deposit balances.

Working capital, which consists of current assets less current liabilities, totalled \$330.8 million at December 31, 2020 compared with \$464.3 million at December 31, 2019 (Table 27). The decrease in working capital reflects the closing of the Company's acquisitions as previously discussed.

Working capital is utilized to:

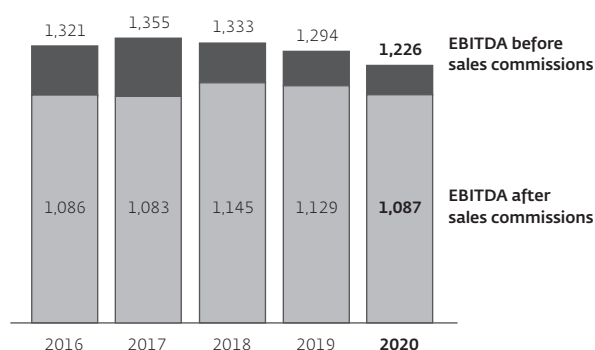
- Finance ongoing operations, including the funding of sales commissions.
- Temporarily finance mortgages in its mortgage banking operations.
- Pay interest and dividends related to long-term debt and preferred shares.
- Maintain liquidity requirements for regulated entities.
- Pay quarterly dividends on its outstanding common shares.
- Finance common share repurchases and retirement of long-term debt.

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization before sales commissions (EBITDA before

sales commissions) totalled \$1,226.4 million for the year ended December 31, 2020, compared to \$1,294.0 million for 2019. EBITDA before sales commissions excludes the impact of both commissions paid and commission amortization (refer to Table 1).

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

For the financial year (\$ millions)



Adjusted EBITDA before and after sales commissions excluded the following:

- 2017 – charges related to restructuring and other, a favourable revaluation of the Company's pension plan obligation, charges representing the Company's proportionate share in Great-West Lifeco Inc.'s one-time charges and restructuring provision.
- 2018 – charges related to restructuring and other and the premium paid on the early redemption of debentures.
- 2019 – the Company's proportionate share of associate's one-time charges.
- 2020 – the gain on sale of Personal Capital, gain on sale of Quadrus Group of Funds net of acquisition costs, the Company's proportionate share of associate's one-time adjustments and restructuring and other.

TABLE 26: DEPOSIT OPERATIONS – FINANCIAL POSITION

AS AT DECEMBER 31 (\$ millions)	2020	2019
Assets		
Cash and cash equivalents	\$ 5.2	\$ 2.2
Client funds on deposit	1,063.4	561.3
Accounts and other receivables	36.5	12.3
Loans	10.5	20.4
Total assets	\$ 1,115.6	\$ 596.2
Liabilities and shareholders' equity		
Deposit liabilities	\$ 1,104.9	\$ 584.3
Other liabilities	0.3	0.5
Shareholders' equity	10.4	11.4
Total liabilities and shareholders' equity	\$ 1,115.6	\$ 596.2

TABLE 27: WORKING CAPITAL

AS AT DECEMBER 31 (\$ millions)	2020	2019
Current Assets		
Cash and cash equivalents	\$ 771.6	\$ 720.0
Client funds on deposit	1,063.4	561.3
Accounts receivable and other assets	391.3	345.3
Current portion of securitized mortgages and other	1,518.6	1,531.7
	3,744.9	3,158.3
Current Liabilities		
Accounts and other payables	756.5	611.9
Deposits and certificates	1,101.4	579.0
Current portion of obligations to securitization entities and other	1,556.2	1,503.1
	3,414.1	2,694.0
Working Capital	\$ 330.8	\$ 464.3

Earnings before interest, taxes, depreciation and amortization after sales commissions (EBITDA after sales commissions) totalled \$1,086.9 million for the year ended December 31, 2020, compared to \$1,128.9 million for 2019. EBITDA after sales commissions excludes the impact of commission amortization (refer to Table 1).

Refer to the Financial Instruments Risk section of this MD&A for information related to other sources of liquidity and to the Company's exposure to and management of liquidity and funding risk.

CASH FLOWS

Table 28 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Consolidated Financial Statements for the year ended December 31, 2020. Cash and cash equivalents increased by \$51.6 million in 2020 compared to an increase of \$69.8 million in 2019.

Adjustments to determine net cash from operating activities during the year ended 2020 compared to 2019 consist of non-cash operating activities offset by cash operating activities:

- The add-back of amortization of capitalized sale commissions offset by the deduction of capitalized sales commissions paid.
- The add-back of amortization of capital, intangible and other assets.
- The deduction of investment in associates' equity earnings offset by dividends received.
- The add-back of pension and other post-employment benefits offset by cash contributions.
- Changes in operating assets and liabilities and other.
- The adjustment for other items in 2020, which included the add-back of restructuring provision and other and the deduction of the gain on the sale of the Company's investment in Personal Capital and the gain on the sale of the Quadrus Group of Funds.
- The deduction of restructuring provision cash payments.

TABLE 28: CASH FLOWS

TWELVE MONTHS ENDED (\$ millions)	2020 DEC. 31	2019 DEC. 31	% CHANGE
Operating activities			
Earnings before income taxes	\$ 965.4	\$ 968.7	(0.3) %
Income taxes paid	(172.3)	(236.7)	27.2
Adjustments to determine net cash from operating activities	(56.5)	(19.9)	(183.9)
	736.6	712.1	3.4
Financing activities	(1,358.4)	(1,068.9)	(27.1)
Investing activities	673.4	426.6	57.9
Change in cash and cash equivalents	51.6	69.8	(26.1)
Cash and cash equivalents, beginning of year	720.0	650.2	10.7
Cash and cash equivalents, end of year	\$ 771.6	\$ 720.0	7.2 %

Financing activities during the year ended December 31, 2020 compared to 2019 related to:

- An increase in obligations to securitization entities of \$1,568.5 million and repayments of obligations to securitization entities of \$2,359.8 million in 2020 compared to an increase in obligations to securitization entities of \$1,456.3 million and repayments of obligations to securitization entities of \$1,960.8 million in 2019.
- The payment of regular common share dividends which totalled \$536.2 million in 2020 compared to \$539.0 million in 2019.

2019 also included the following financing activities:

- Issuance of debentures of \$250.0 million.
- Redemption of preferred shares of \$150.0 million.
- The purchase of 2,762,788 common shares under IGM Financial's normal course issuer bid at a cost of \$100.0 million.
- Payment of perpetual preferred share dividends which totalled \$4.4 million.

Investing activities during the year ended December 31, 2020 compared to 2019 primarily related to:

- The purchases of other investments totalling \$32.7 million and sales of other investments with proceeds of \$38.8 million in 2020 compared to \$118.9 million and \$85.5 million, respectively, in 2019.
- An increase in loans of \$1,793.0 million with repayments of loans and other of \$2,679.7 million in 2020 compared to \$1,682.1 million and \$2,211.5 million, respectively, in 2019, primarily related to residential mortgages in the Company's mortgage banking operations.
- Net cash used in additions to intangible assets and acquisitions was \$68.8 million in 2020 compared to \$64.1 million in 2019.
- The acquisition of GLC Asset Management Group Ltd. for \$175.8 million in 2020.
- The investment in Northleaf Capital Group Ltd. of \$198.8 million in 2020.
- The sales of the Company's investment in Personal Capital and the Quadrus Group of Funds with proceeds of \$262.8 million.

2019 also included the following investing activities:

- An additional investment in Personal Capital of \$66.8 million.
- Proceeds of \$80.4 million from the sale of 2,400,255 Lifeco shares as a result of the Company's participation in the Lifeco substantial issuer bid.

CAPITAL RESOURCES

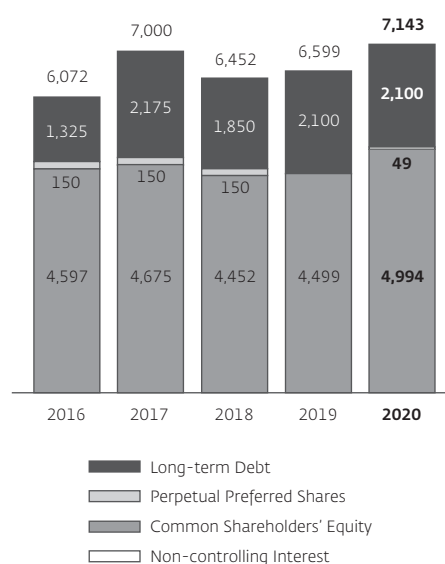
The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt and common shareholders' equity which totalled \$7.1 billion at December 31, 2020, compared to \$6.6 billion at December 31, 2019. The Company regularly assesses its capital management practices in response to changing economic conditions.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

The total outstanding long-term debt was \$2.1 billion at December 31, 2020, unchanged from December 31, 2019. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants.

Capital

As at December 31 (\$ millions)



Other activities in 2020 included the declaration of common share dividends of \$536.2 million or \$2.25 per share. Changes in common share capital are reflected in the Annual Consolidated Statements of Changes in Shareholders' Equity.

Standard & Poor's (S&P) current rating on the Company's senior unsecured debentures is "A" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Company's senior unsecured debentures is "A (High)" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a company and are indicators of the likelihood of payment and the capacity of a company to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites.

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The A rating assigned to IGM Financial's senior unsecured debentures by S&P is the sixth highest of the 22 ratings used for long-term debt. This rating indicates S&P's view that the Company's capacity to meet its financial commitment on the obligation is strong, but the obligation is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories.

The A (High) rating assigned to IGM Financial's senior unsecured debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. Under the DBRS long-term rating scale, debt securities rated A (High) are of good credit quality and the capacity for the payment of financial obligations is substantial. While this is a favourable rating, entities in the A (High) category may be vulnerable to future events, but qualifying negative factors are considered manageable.

FINANCIAL INSTRUMENTS

Table 29 presents the carrying amounts and fair values of financial assets and financial liabilities. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities and certain other financial liabilities.

Fair value is determined using the following methods and assumptions:

- Other investments and other financial assets and liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.
- Loans classified as held for trading are valued using market interest rates for loans with similar credit risk and maturity, specifically lending rates offered to retail borrowers by financial institutions.

TABLE 29: FINANCIAL INSTRUMENTS

(\$ millions)	DECEMBER 31, 2020		DECEMBER 31, 2019	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial assets recorded at fair value				
Other investments				
– Fair value through other comprehensive income	\$ 593.3	\$ 593.3	\$ 301.2	\$ 301.2
– Fair value through profit or loss	39.0	39.0	56.2	56.2
Loans				
– Fair value through profit or loss	3.3	3.3	–	–
Derivative financial instruments	37.3	37.3	15.2	15.2
Financial assets recorded at amortized cost				
Loans				
– Amortized cost	6,328.6	6,532.8	7,198.0	7,273.8
Financial liabilities recorded at fair value				
Derivative financial instruments	34.5	34.5	17.2	17.2
Financial liabilities recorded at amortized cost				
Deposits and certificates	1,104.9	1,105.4	584.3	584.7
Obligations to securitization entities	6,173.9	6,345.2	6,913.6	6,997.0
Long-term debt	2,100.0	2,653.8	2,100.0	2,453.6

- Loans classified as amortized cost are valued by discounting the expected future cash flows at prevailing market yields.
- Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.
- Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is valued using quoted prices for each debenture available in the market.

- Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

See Note 23 of the Annual Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the twelve months ended December 31, 2020.

Risk Management

IGM Financial is exposed to a variety of risks that are inherent in our business activities. Our ability to manage these risks is key to our ongoing success. The Company emphasizes a strong risk management culture and the implementation of an effective risk management approach. Our approach coordinates risk management across the organization and its business units and seeks to ensure prudent and measured risk-taking in order to achieve an appropriate balance between risk and return. Fundamental to our enterprise risk management program is protecting and enhancing our reputation.

RISK MANAGEMENT FRAMEWORK

The Company's risk management approach is undertaken through our comprehensive Enterprise Risk Management (ERM) Framework which is composed of five core elements: risk governance, risk appetite, risk principles, a defined risk management process, and risk management culture. The ERM Framework is established under our ERM Policy, which is approved by the Executive Risk Management Committee.

RISK GOVERNANCE

Our risk governance structure emphasizes ownership of risk management in each business unit and oversight by an executive Risk Management Committee accountable to the Risk Committee of the Board (Risk Committee) and ultimately to the Board of Directors. Additional oversight is provided by the ERM Department, compliance groups, and Internal Audit Department.

The Risk Committee provides primary oversight and carries out its risk management mandate. The Risk Committee is responsible for assisting the Board in reviewing and overseeing the risk governance structure and risk management program of the Company by: i) ensuring that appropriate procedures are in place to identify and manage risks and establish risk tolerances, ii) ensuring that appropriate policies, procedures and controls are implemented to manage risks, and iii) reviewing the risk management process on a regular basis to ensure that it is functioning effectively.

Other specific risks are managed with the support of the following Board committees:

- The Audit Committee has specific risk oversight responsibilities in relation to financial disclosure, internal controls and the control environment as well as our compliance activities, including administration of the Code of Conduct.
- The Human Resource Committee oversees compensation policies and practices.
- The Governance and Nominating Committee oversees corporate governance practices.

- The Related Party and Conduct Review Committee oversees conflicts of interest.

Management oversight for risk management resides with the executive Risk Management Committee which is comprised of the Chief Executive Officers of IGM Financial, IG Wealth Management and Mackenzie Investments, the Chief Financial Officer, the General Counsel, the Chief Operating Officer, the Chief Strategy and Corporate Development Officer and the Chief Human Resources Officer. The committee is responsible for oversight of IGM Financial's risk management process by: i) establishing and maintaining the risk framework and policy; ii) defining the risk appetite; iii) ensuring our risk profile and processes are aligned with corporate strategy and risk appetite; and iv) establishing "tone at the top" and reinforcing a strong culture of risk management.

The Chief Executive Officers of the operating companies have overall responsibility for overseeing risk management of their respective companies.

The Company has assigned responsibility for risk management using the Three Lines of Defence model, with the First Line reflecting the business units having primary responsibility for risk management, supported by Second Line risk management functions and a Third Line (the Internal Audit function) providing assurance and validation of the design and effectiveness of the ERM Framework.

In response to the impact of COVID-19, the Company is focusing our teams on addressing and managing COVID-19 issues and has established new committees and processes where required.

First Line of Defence

The leaders of the various business units and support functions have primary ownership and accountability for the ongoing risk management associated with their respective activities. Responsibilities of business unit and support function leaders include: i) establishing and maintaining procedures for the identification, assessment, documentation and escalation of risks, ii) implementing control activities to mitigate risks, iii) identifying opportunities for risk reduction or transfer, and iv) aligning business and operational strategies with the risk culture and risk appetite of the organization as established by the Risk Management Committee.

Second Line of Defence

The Enterprise Risk Management (ERM) Department provides oversight, analysis and reporting to the Risk Management Committee on the level of risks relative to the established risk

appetite for all activities of the Company. Other responsibilities include: i) developing and maintaining the enterprise risk management program and framework, ii) managing the enterprise risk management process, and iii) providing guidance and training to business unit and support function leaders.

The Company has a number of committees of senior business leaders which provide oversight of specific business risks, including the Financial Risk Management and Operational Risk Management committees. These committees perform critical reviews of risk assessments, risk management practices and risk response plans developed by business units and support functions.

Other oversight accountabilities reside with the Company's corporate and compliance groups which are responsible for ensuring compliance with policies, laws and regulations.

Third Line of Defence

The Internal Audit Department is the third line of defence and provides independent assurance to senior management and the Board of Directors on the effectiveness of risk management policies, processes and practices.

RISK APPETITE AND RISK PRINCIPLES

The Risk Management Committee establishes the Company's appetite for different types of risk through the Risk Appetite Framework. Under the Risk Appetite Framework, one of four appetite levels is established for each risk type and business activity of the Company. These appetite levels range from those where the Company has no appetite for risk and seeks to minimize any losses, to those where the Company readily accepts exposure while seeking to ensure that risks are well understood and managed. These appetite levels guide our business units as they engage in business activities, and inform them in establishing policies, limits, controls and risk transfer activities.

A Risk Appetite Statement and Risk Principles provide further guidance to business leaders and employees as they conduct risk management activities. The Risk Appetite Statement's emphasis is to maintain the Company's reputation and brand, ensure financial flexibility, and focus on mitigating operational risk.

RISK MANAGEMENT PROCESS

The Company's risk management process is designed to foster:

- Ongoing assessment of risks and tolerance in a changing operating environment.
- Appropriate identification and understanding of existing and emerging risks and risk response.
- Timely monitoring and escalation of risks based upon changing circumstances.

Significant risks that may adversely affect the Company's ability to achieve its strategic and business objectives are identified through the Company's ongoing risk management process.

We use a consistent methodology across our organizations and business units for identification and assessment of risks. Risks are assessed by evaluating the impact and likelihood of the potential risk event after consideration of controls and any risk transfer activities. The results of these assessments are considered relative to risk appetite and tolerances and may result in action plans to adjust the risk profile.

Risk assessments are monitored and reviewed on an ongoing basis by business units and by oversight areas including the ERM Department. The ERM Department promotes and coordinates communication and consultation to support effective risk management and escalation. The ERM Department regularly reports on the results of risk assessments and on the assessment process to the Risk Management Committee and to the Board of Directors.

RISK MANAGEMENT CULTURE

Risk management is intended to be everyone's responsibility within the organization. The ERM Department engages all business units in workshops to foster awareness and incorporation of our risk framework into our business activities.

We have an established business planning process which reinforces our risk management culture. Our compensation programs are typically objectives-based, and do not encourage or reward excessive or inappropriate risk taking, and often are aligned specifically with risk management objectives.

Our risk management program emphasizes integrity, ethical practices, responsible management and measured risk-taking with a long-term view. Our standards of integrity and ethics are reflected within our Code of Conduct which applies to directors, officers and employees.

KEY RISKS OF THE BUSINESS

Significant risks that may adversely affect our ability to achieve strategic and business objectives are identified through our ongoing risk management process.

We use a consistent methodology across our organizations and business units to identify and assess risks, considering factors both internal and external to the organization. These risks are broadly grouped into five categories: financial, operational, strategic, business, and environmental and social.

1) FINANCIAL RISK

LIQUIDITY AND FUNDING RISK

This is the risk of an inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise.

Our liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and the Company's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity management by the Financial Risk Management Committee, a committee of finance and other business leaders.

A key funding requirement is the funding of Consultant network compensation paid for the distribution of financial products and services. This compensation continues to be paid from operating cash flows.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources and to manage any derivative collateral requirements. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the CMB Program. The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in the Principal Reinvestment Accounts. The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions and government regulations that are subject to change. A condition of the NHA MBS and CMB Program is that securitized loans be insured by an insurer that is approved

by CMHC. The availability of mortgage insurance is dependent upon market conditions and is subject to change.

As part of ongoing liquidity management during 2020 and 2019, the Company:

- Continued to assess additional funding sources for the Company's mortgage banking operations.
- Issued \$250 million 4.206% debentures in March 2019 maturing March 21, 2050. The net proceeds were used by the Company to fund the redemption of \$150 million 5.90% Non-Cumulative First Preferred Shares, Series B and for general corporate purposes. The Company redeemed the Series B Preferred Shares on April 30, 2019.
- Participated in the Lifeco substantial issuer bid by selling 2,400,255 of its shares in Lifeco for proceeds of \$80.4 million.
- Received proceeds from the sales of the Company's investment in Personal Capital and the Quadrus Group of Funds of \$262.8 million.

The Company's contractual obligations are reflected in Table 30.

The maturity schedule for long-term debt of \$2.1 billion is reflected in the accompanying chart (Long-Term Debt Maturity Schedule).

In addition to IGM Financial's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled \$825 million at December 31, 2020, unchanged from December 31, 2019. The lines of credit at December 31, 2020 consisted of committed lines of \$650 million and uncommitted lines of \$175 million, unchanged from December 31, 2019. The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines of credit are at the bank's sole discretion. As at December 31, 2020 and December 31, 2019, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

TABLE 30: CONTRACTUAL OBLIGATIONS

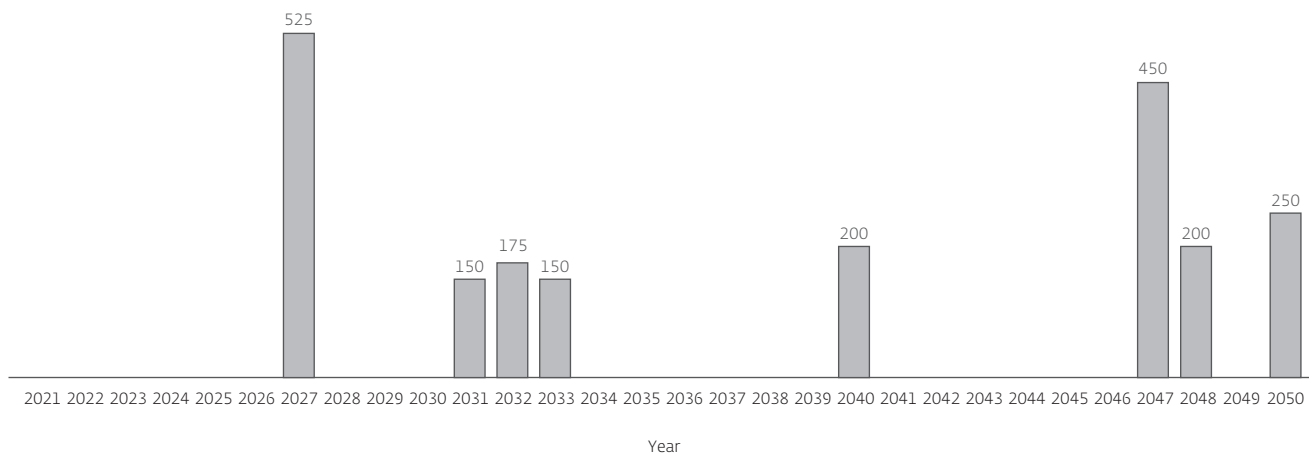
AS AT DECEMBER 31, 2020 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ –	\$ 13.1	\$ 21.4	\$ –	\$ 34.5
Deposits and certificates	1,099.4	2.1	2.5	0.9	1,104.9
Obligations to securitization entities	–	1,543.1	4,610.1	20.7	6,173.9
Leases ⁽¹⁾	–	27.6	88.2	131.1	246.9
Long-term debt	–	–	–	2,100.0	2,100.0
Pension funding ⁽²⁾	–	14.1	–	–	14.1
Total contractual obligations	\$ 1,099.4	\$ 1,600.0	\$ 4,722.2	\$ 2,252.7	\$ 9,674.3

(1) Includes remaining lease payments related to office space and equipment used in the normal course of business.

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2020. Pension funding requirements beyond 2021 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

Long-Term Debt Maturity Schedule

(\$ millions)



The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2017, was completed in May 2018. The valuation determines the plan surplus or deficit on both a solvency and going concern basis. The solvency basis determines the relationship between the plan assets and its liabilities assuming that the plan is wound up and settled on the valuation date. A going concern valuation compares the relationship between the plan assets and the present value of the expected future benefit cash flows, assuming the plan will be maintained indefinitely. Based on the actuarial valuation, the registered pension plan had a solvency deficit of \$47.2 million compared to \$82.7 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2016. The decrease in the solvency deficit resulted primarily from higher assets due to contribution and investment returns and is required to be funded over five years. The registered pension plan had a going concern surplus of \$46.1 million compared to \$24.4 million in the previous valuation. The next required actuarial valuation will be based on a measurement date of December 31, 2020. During the year ended December 31, 2020, the Company made contributions of \$25.6 million (2019 – \$26.4 million). The Manitoba Government announced that they will temporarily waive certain contributions businesses are required to make to their defined benefit pension plans including solvency funding payments for the 13 months from December 2020 to December 2021. IGM has elected this special payment moratorium and as a result, the Company expects to only make current service cost contributions of approximately \$14.1 million in 2021. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above are sufficient to meet the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the impact that debt and equity market performance has on the Company's fee income and commission and certain other expenses. The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2019.

CREDIT RISK

This is the risk of financial loss to the Company if a counterparty to a transaction fails to meet its obligations.

The Company's cash and cash equivalents, other investment holdings, mortgage portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

Cash and Cash Equivalents and Client Funds on Deposit

At December 31, 2020, cash and cash equivalents of \$771.6 million (2019 – \$720.0 million) consisted of cash balances of \$76.6 million (2019 – \$68.0 million) on deposit with Canadian chartered banks and cash equivalents of \$695.0 million (2019 – \$652.0 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$96.0 million (2019 – \$34.5 million), provincial government treasury bills and promissory notes of \$148.8 million (2019 – \$206.5 million), and bankers' acceptances

and other short-term notes issued by Canadian chartered banks of \$450.2 million (2019 – \$411.0 million).

Client funds on deposit of \$1,063.4 million (December 31, 2019 – \$561.3 million) represent cash balances held in client accounts which are deposited at Canadian financial institutions.

The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

The Company's exposure to and management of credit risk related to cash and cash equivalents and fixed income securities have not changed materially since December 31, 2019.

Mortgage Portfolio

As at December 31, 2020, residential mortgages, recorded on the Company's balance sheet, of \$6.3 billion (2019 – \$7.2 billion) consisted of \$6.0 billion sold to securitization programs (2019 – \$6.8 billion), \$334.5 million held pending sale or securitization (2019 – \$344.5 million) and \$14.1 million related to the Company's intermediary operations (2019 – \$24.2 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and
- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and IG Wealth Management Consultants as part of a client's IG Living Plan.

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

- Under the NHA MBS program totalling \$3.2 billion (2019 – \$3.9 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling \$2.8 billion (2019 – \$2.9 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$73.0 million (2019 – \$71.9 million) and \$45.6 million (2019 – \$37.9 million), respectively, at December 31, 2020. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be

recorded over the life of the mortgages. This risk is further mitigated by insurance with 3.0% of mortgages held in ABCP Trusts insured at December 31, 2020 (2019 – 4.6%).

At December 31, 2020, residential mortgages recorded on balance sheet were 55.3% insured (2019 – 59.1%). As at December 31, 2020, impaired mortgages on these portfolios were \$4.8 million, compared to \$2.4 million at December 31, 2019. Uninsured non-performing mortgages over 90 days on these portfolios were \$2.3 million at December 31, 2020, compared to \$1.6 million at December 31, 2019.

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

The Company regularly reviews the credit quality of the mortgages and the adequacy of the allowance for expected credit losses.

The Company's allowance for expected credit losses was \$0.8 million at December 31, 2020, compared to \$0.7 million at December 31, 2019, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience, ii) recent trends including the economic impact of COVID-19 and Canada's COVID-19 Economic Response Plan to support Canadians and businesses, iii) current portfolio credit metrics and other relevant characteristics, iv) our strong financial planning relationship with our clients, and v) stress testing of losses under adverse real estate market conditions.

The Company's exposure to and management of credit risk related to mortgage portfolios have not changed materially since December 31, 2019.

Derivatives

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions and to hedge market risk related to certain stock-based compensation arrangements. These derivatives are discussed more fully under the Market Risk section of this MD&A.

To the extent that the fair value of the derivatives is in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfil their obligations under these arrangements.

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that

are in a gain position of \$35.8 million (2019 – \$15.7 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was \$3.8 million at December 31, 2020 (2019 – \$0.7 million). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at December 31, 2020. Management of credit risk related to derivatives has not changed materially since December 31, 2019.

Additional information related to the Company's securitization activities and utilization of derivative contracts can be found in Notes 2, 6 and 22 to the Annual Financial Statements.

MARKET RISK

This is the risk of loss arising from changes in the values of the Company's financial instruments due to changes in foreign exchange rates, interest rates or equity prices.

Interest Rate Risk

IGM Financial is exposed to interest rate risk on its mortgage portfolio and on certain of the derivative financial instruments used in our mortgage banking operations.

The Company manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of \$21.1 million (December 31, 2019 – negative \$0.9 million) and an outstanding notional amount of \$0.7 billion at December 31, 2020 (December 31, 2019 – \$0.8 billion). The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The fair value of these swaps totalled \$19.9 million (December 31, 2019 – negative \$4.9 million), on an outstanding notional amount of \$1.3 billion at December 31, 2020 (December 31, 2019 – \$1.6 billion). The net fair value of these swaps of negative \$1.2 million at December 31, 2020 (December 31, 2019 – negative \$5.8 million) is recorded on the balance sheet and has an outstanding notional amount of \$2.0 billion (December 31, 2019 – \$2.4 billion).
- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages committed

to or held pending sale or securitization to long-term funding sources. The Company enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by the Company pending sale or securitization. Hedge accounting is applied to the cost of funds on certain securitization activities. The effective portion of fair value changes of the associated interest rate swaps are initially recognized in Other comprehensive income and subsequently recognized in Wealth Management revenue over the term of the related Obligations to securitization entities. The negative fair value of these swaps was \$0.3 million (December 31, 2019 – positive \$0.6 million) on an outstanding notional amount of \$191.3 million at December 31, 2020 (December 31, 2019 – \$180.4 million).

As at December 31, 2020, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$1.3 million (December 31, 2019 – decrease of \$2.0 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2019.

Equity Price Risk

IGM Financial is exposed to equity price risk on our equity investments which are classified as either fair value through other comprehensive income or fair value through profit or loss or investments in associates. The fair value of the equity investments was \$632.3 million at December 31, 2020 (December 31, 2019 – \$357.4 million), as shown in Table 23.

The Company sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of IGM Financial Inc. The Company hedges its exposure to this risk through the use of forward agreements and total return swaps.

Foreign Exchange Risk

IGM Financial is exposed to foreign exchange risk on its investment in China AMC. Changes to the carrying value due to changes in foreign exchange rates is recognized in Other comprehensive income. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the aggregate carrying value of foreign investments by approximately \$34.0 million (\$37.6 million).

The Company's proportionate share of China AMC's earnings, recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings, is also affected by changes in foreign exchange rates. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the Company's proportionate share of associates' earnings (losses) by approximately \$2.0 million (\$2.1 million).

RISKS RELATED TO ASSETS UNDER MANAGEMENT AND ADVISEMENT

At December 31, 2020, IGM Financial's total assets under management and advisement were \$240.0 billion compared to \$190.0 billion at December 31, 2019.

The Company's primary sources of revenues are advisory fees and asset management fees which are applied as an annual percentage of the level of assets under management and advisement. As a result, the level of the Company's revenues and earnings are indirectly exposed to a number of financial risks that affect the value of assets under management and advisement on an ongoing basis. These include market risks, such as changes in equity prices, interest rates and foreign exchange rates, as well as credit risk on debt securities, loans and credit exposures from other counterparties within our client portfolios.

Changing financial market conditions may also lead to a change in the composition of the Company's assets under management between equity and fixed income instruments, which could result in lower revenues depending upon the management fee rates associated with different asset classes and mandates.

During 2020, there has been significant global market volatility, as discussed in the Operational Assessment section of the MD&A.

The Company believes that over the long term, exposure to investment returns on its client portfolios is beneficial to the Company's results and consistent with stakeholder expectations, and generally it does not engage in risk transfer activities such as hedging in relation to these exposures.

The Company has increased its communication to clients and others of market conditions and changes and the Company and its Consultants have actively been reaching out to clients to discuss their financial planning needs and goals in light of COVID-19 and will continue those efforts. The Company has

also increased communication to support the independent financial advisors and its institutional clients with a focus on providing capital market and economic updates, ongoing commentary, and access to investment management to ensure they have the resources they need to support their clients in light of COVID-19.

The Company's exposure to the value of assets under management and advisement aligns it with the experience of its clients. Assets under management are broadly diversified by asset class, geographic region, industry sector, investment team and style. The Company regularly reviews the sensitivity of its assets under management, revenues, earnings and cash flow to changes in financial markets.

2) OPERATIONAL RISK

This is the risk of financial loss, reputational damage or regulatory actions resulting from inadequate or failed internal processes or systems, human interaction or external events. This excludes business risk, which is a separate category in our ERM framework.

We are exposed to a broad range of operational risks, including information technology security and system failures, errors relating to transaction processing, financial models and valuations, fraud and misappropriation of assets, and inadequate application of internal control processes.

Operational risks relating to people and processes are mitigated through policies and process controls. Oversight of risks and ongoing evaluation of the effectiveness of controls is provided by the Company's Compliance Department, ERM Department and Internal Audit Department.

The Company has an insurance review process where it assesses and determines the nature and extent of insurance that is appropriate to provide adequate protection against unexpected losses, and where it is required by law, regulators or contractual agreements.

TABLE 31: IGM FINANCIAL ASSETS UNDER MANAGEMENT – ASSET AND CURRENCY MIX

AS AT DECEMBER 31, 2020	INVESTMENT FUNDS	TOTAL
Cash	1.6 %	2.6 %
Short-term fixed income and mortgages	5.1	5.0
Other fixed income	26.0	25.5
Domestic equity	19.8	24.3
Foreign equity	44.9	40.6
Real Property	2.6	2.0
	100.0 %	100.0 %
CAD	52.9 %	58.7 %
USD	30.4	27.1
Other	16.7	14.2
	100.0 %	100.0 %

Operational risk affects all business activities, including the processes in place to manage other risks. As a result, operational risk can be difficult to measure, given that it forms part of other risks of the Company and may not always be separately identified.

The Company's risk management framework emphasizes operational risk management and internal control. The Company has a very low appetite for risk in this area.

The business unit leaders are responsible for management of the day to day operational risks of their respective business units. Specific programs, policies, training, standards and governance processes have been developed to help manage operational risk.

The Company has a crisis response plan which outlines crisis response coordination policies and procedures in the event of a crisis that could significantly impact the organization's reputation, brands or business operations. The Company executes simulation exercises on a regular basis. The Company has a crisis assessment team comprised of senior leadership who are responsible for crisis confirmation and management. In addition, this team is responsible for setting strategy, overseeing response and ensuring appropriate subject matter experts are engaged in the scenario-dependent crisis response team.

The Company also has a business continuity management program to enable critical operations and processes to function in the event of a business disruption.

For the health and safety of the Company's employees and clients and to help efforts to limit the speed and spread of the COVID-19 infection, the Company moved substantially all of its employees and Consultants to work from home and temporarily closed its offices in March 2020. The Company is continuously assessing its plan and protocols, and taking direction from external governing bodies such as the Medical Officers of Health, to determine when employees and advisors will return to the office.

The Company's business continuity plan has been effective at ensuring the Company is able to continue operations and provide client service with minimal disruptions.

TECHNOLOGY AND CYBER RISK

We use systems and technology to support business operations and the client and financial advisor experience. As a result, we are exposed to risks relating to technology and cyber security such as data breaches, identity theft and hacking, including the risk of denial of service or malicious software attacks. The volume of these activities in our society has increased since the onset of COVID-19. Such attacks could compromise confidential information of the Company and that of clients or other stakeholders, and could result in negative consequences including lost revenue, litigation, regulatory scrutiny or reputational damage. To remain resilient to such threats, we have established enterprise-wide cyber security programs, benchmarked capabilities to sound industry practices, and

implemented threat and vulnerability assessment and response capabilities. Extended duration of work from home programs introduces increased need to mitigate risk of potential data loss.

OUTSOURCING

We regularly engage third parties to provide expertise and efficiencies that support our operational activities. Our exposure to third party service provider risk could include reputational, regulatory and other operational risks. Policies, standard operating procedures and dedicated resources, including a supplier code of conduct and outsourcing policy, have been developed and implemented to specifically address third party service provider risk. We perform due diligence and monitoring activities before entering into contractual relationships with third-party service providers and on an ongoing basis. As our reliance on external service providers continues to grow, we continue to enhance resources and processes to support third party risk management.

MODEL RISK

We use a variety of models to assist in: the valuation of financial instruments, operational scenario testing, management of cash flows, capital management, and assessment of potential acquisitions. These models incorporate internal assumptions, observable market inputs and available market prices. Effective controls exist over the development, implementation and application of these models. However, changes in the internal assumptions or other factors affecting the models could have an adverse effect on the Company's consolidated financial position and reputation.

LEGAL AND REGULATORY COMPLIANCE

This is the risk of not complying with laws, contractual agreements or regulatory requirements. These risks relate to regulation governing product distribution, investment management, accounting, reporting and communications.

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements, including the requirements of agencies of the federal, provincial and territorial governments in Canada which regulate the Company and its activities. The Company and its subsidiaries are also subject to the requirements of self-regulatory organizations to which they belong. These and other regulatory bodies regularly adopt new laws, rules, regulations and policies that apply to the Company and its subsidiaries. These requirements include those that apply to IGM Financial as a publicly traded company and those that apply to the Company's subsidiaries based on the nature of their activities. They include regulations related to the management and provision of financial products and services, including securities, insurance and mortgages, and other activities carried on by the Company in the markets in which it operates. Regulatory standards affecting the Company and the financial

services industry are significant and continually evolve. The Company and its subsidiaries are subject to reviews as part of the normal ongoing process of oversight by the various regulators.

Failure to comply with laws, rules or regulations could lead to regulatory sanctions and civil liability, and may have an adverse reputational or financial effect on the Company. The Company manages legal and regulatory compliance risk through its efforts to promote a strong culture of compliance. The monitoring of regulatory developments and their impact on the Company is overseen by the Regulatory Initiatives Committee chaired by the Executive Vice-President, General Counsel. The Company also continues to develop and maintain compliance policies, processes and oversight, including specific communications on compliance and legal matters, training, testing, monitoring and reporting. The Audit Committee of the Board receives regular reporting on compliance initiatives and issues.

IGM Financial promotes a strong culture of ethics and integrity through its Code of Conduct approved by the Board of Directors, which outlines standards of conduct that apply to all IGM Financial directors, officers and employees. The Code of Conduct references many policies relating to the conduct of directors, officers and employees. Other corporate policies cover anti-money laundering and privacy. Training is provided on these policies on an annual basis. Individuals subject to the Code of Conduct attest annually that they understand the requirements and have complied with its provisions.

Business units are responsible for management of legal and regulatory compliance risk, and implementing appropriate policies, procedures and controls. The Company's Compliance Departments are responsible for providing oversight of all regulated compliance activities. The Internal Audit Department also provides oversight concerning regulatory compliance matters.

CONTINGENCIES

The Company is subject to legal actions arising in the normal course of its business. In December 2018, a proposed class action was filed in the Ontario Superior Court against Mackenzie which alleges that the company should not have paid mutual fund trailing commissions to order execution only dealers. Although it is difficult to predict the outcome of any such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

3) STRATEGIC RISK

This is the risk of potential adverse impacts resulting from inadequate or inappropriate governance, oversight, management of incentives and conflicts, regulatory developments and strategy.

IGM Financial believes in the importance of good corporate governance and the central role played by directors in

the governance process. We believe that sound corporate governance is essential to the well-being of the Company and our shareholders.

Oversight of IGM Financial is performed by the Board of Directors directly and through its five committees. The Company's President and Chief Executive Officer has overall responsibility for management of the Company. The Company's activities are carried out principally by three operating companies – Investors Group Inc., Mackenzie Financial Corporation and Investment Planning Counsel Inc. – each of which are managed by a President and Chief Executive Officer.

We have a business planning process that supports development of an annual business plan, approved by the Board of Directors, which incorporates objectives and targets for the Company. Components of management compensation are associated with the achievement of earnings targets and other objectives associated with the plan. Strategic plans and direction are part of this planning process and are integrated into the Company's risk management program.

REGULATORY DEVELOPMENT RISK

This is the potential for changes to regulatory, legal, or tax requirements that may have an adverse impact on the Company's business activities or financial results.

We are exposed to the risk of changes in laws, taxation and regulation that could have an adverse impact on the Company. Particular regulatory initiatives may have the effect of making the products of the Company's subsidiaries appear to be less competitive than the products of other financial service providers, to third party distribution channels and to clients. Regulatory differences that may impact the competitiveness of the Company's products include regulatory costs, tax treatment, disclosure requirements, transaction processes or other differences that may be as a result of differing regulation or application of regulation. Regulatory developments may also impact product structures, pricing, and dealer and advisor compensation. While the Company and its subsidiaries actively monitor such initiatives, and where feasible comment upon or discuss them with regulators, the ability of the Company and its subsidiaries to mitigate the imposition of differential regulatory treatment of financial products or services is limited.

The Company continuously monitors regulatory developments, guidance and communications, and has been engaged in ongoing discussions with regulators as the industry works to address issues resulting from COVID-19.

ACQUISITION RISK

The Company is exposed to risks related to its acquisitions and strategic investments. The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic

objectives or cost and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

4) BUSINESS RISK

GENERAL BUSINESS CONDITIONS

This risk refers to the potential for unfavourable impacts on IGM Financial resulting from competitive or other external factors relating to the marketplace.

Global economic conditions, changes in equity markets, demographics and other factors including geopolitical risk and government instability, can affect investor confidence, income levels and savings decisions. This could result in reduced sales of IGM Financial's products and services and/or result in investors redeeming their investments. These factors may also affect the level and volatility of financial markets and the value of the Company's assets under management, as described more fully under the Risks Related to Assets Under Management section of this MD&A.

To manage this risk, the Company, across its operating subsidiaries, communicates with clients and underscores the importance of financial planning across economic cycles. The Company and the industry continue to take steps to educate Canadian investors on the merits of financial planning, diversification and long-term investing. In periods of volatility, Consultants and independent financial advisors play a key role in assisting investors in maintaining perspective and focus on their long-term objectives.

Redemption rates for long-term funds are summarized in Table 32 and are discussed in the Wealth Management and the Asset Management Segment Operating Results sections of this MD&A.

CATASTROPHIC EVENTS OR LOSS

Catastrophic events or loss refers to the risk that events such as earthquakes, floods, fire, tornadoes, pandemics, or terrorism could adversely affect the Company's financial performance.

Catastrophic events can cause economic uncertainty, affect investor confidence, income levels and financial planning decisions. This could affect the level and volatility of financial markets and the level of the Company's assets under management and advisement.

The global COVID-19 pandemic has caused economic disruption, adversely impacted economic conditions, has caused significant volatility and reductions in the level of financial markets, and has increased unemployment in Canada and globally.

In response, the Company has implemented its business continuity plans and has transitioned substantially all of its employees and Consultants to working from home.

It is difficult to predict how significant the COVID-19 pandemic and government measures taken in response will be to world economies, our clients and our business. This event could have a material impact on the financial positions and results of the Company, subject to duration and severity.

PRODUCT / SERVICE OFFERING

This risk refers to the potential for unfavourable impacts on IGM Financial resulting from inadequate product or service performance, quality or breadth.

IGM Financial and its subsidiaries operate in a highly competitive environment, competing with other financial service providers, investment managers and product and service types. Client development and retention can be influenced by a number of factors, including investment performance, products and services offered by competitors, relative service levels, relative pricing, product attributes, reputation and actions taken by competitors. This competition could have an adverse impact upon the Company's financial position and operating results. Please refer to The Competitive Landscape section of this MD&A for further discussion.

We provide Consultants, independent financial advisors, as well as retail and institutional clients with a high level of service and support and a broad range of investment products, with a focus on building enduring relationships. The Company's subsidiaries also continually review their respective product and service offering and pricing to ensure competitiveness in the marketplace.

TABLE 32: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

	2020 DEC. 31	2019 DEC. 31
IGM Financial Inc.		
IG Wealth Management	9.8 %	10.3 %
Mackenzie	16.6 %	15.6 %
Counsel	20.1 %	19.3 %

We strive to deliver strong investment performance on our products relative to benchmarks and peers. Poor investment performance relative to benchmarks or peers could reduce the level of assets under management and sales and asset retention, as well as adversely impact our brands and reputation. Meaningful and/or sustained underperformance could affect the Company's results. Our objective is to cultivate investment processes and disciplines that give us a competitive advantage, and we do this by diversifying our assets under management and product shelf by investment team, brand, asset class, mandate, style and geographic region.

BUSINESS / CLIENT RELATIONSHIPS

This risk refers to the potential for unfavourable impacts on IGM Financial resulting from changes to key business or client relationships. These relationships primarily include IG Wealth Management clients and Consultants, Mackenzie retail distribution, strategic and significant business partners, clients of Mackenzie funds, and sub-advisors and other product suppliers.

IG Wealth Management Consultant network – IG Wealth Management derives all of its mutual fund sales through its Consultant network. IG Wealth Management Consultants have regular direct contact with clients which can lead to a strong and personal client relationship based on the client's confidence in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on IG Wealth Management's results of operations and business prospects. IG Wealth Management is focused on strengthening its distribution network of Consultants and on responding to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice, as discussed in the Wealth Management Review of the Business section of this MD&A.

Asset Management – Mackenzie derives the majority of its mutual fund sales through third party financial advisors. Financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. Mackenzie also derives sales of its investment products and services from its strategic alliance and institutional clients. Due to the nature of the distribution relationship in these relationships and the relative size of these accounts, gross sale and redemption activity can be more pronounced in these accounts than in a retail relationship. Mackenzie's ability to market its investment products is highly dependent on continued access to these distribution networks. Lack of access could have a material adverse effect on Mackenzie's operating results and business prospects. Mackenzie is well positioned to manage this risk and to continue to build and enhance its distribution relationships. Mackenzie's diverse portfolio of financial products

and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading investment management companies. These factors are discussed further in the Asset Management Review of the Business section of this MD&A.

PEOPLE RISK

This risk refers to the potential inability to attract or retain employees or Consultants, develop them to an appropriate level of proficiency, or manage engagement and personnel succession or transition.

Management, investment and distribution personnel play an important role in developing, implementing, managing and distributing products and services offered by IGM Financial. The loss of these individuals or an inability to attract, retain and motivate sufficient numbers of qualified personnel could negatively affect IGM Financial's business and financial performance.

We have a Diversity and Inclusion Strategy with the purpose of driving an inclusive, equitable and consistent experience for employees and clients that supports our business objectives now and into the future. To achieve the desired outcomes, we focus on three pillars of action: raising awareness; improving inclusive leadership behaviours; and building external partnerships and community engagement.

Our activities have a current focus on enabling the upward mobility of women and other under-represented groups. We had a goal to have at least 35% of our executive roles – Vice-President and above – held by women by the end of 2020. As of December 31, 2020, 33% of these roles were held by women and 27% of IG Wealth Management Consultants were women. We are supporters of the UN Women's Empowerment Principles and also work with Catalyst, the Institute for Gender and the Economy and Women in Capital Markets to advance gender equality. In 2020, the IGM Financial companies also signed a pledge through the BlackNorth Initiative that reinforces our shared commitment to end anti-Black systemic racism.

COVID-19 has caused significant disruption in peoples' lives both professionally and personally. The Company's actions have included:

- Implementing a work at home strategy to maintain social distance for our employees and Consultants.
- Providing the tools and processes to enable our employees and Consultants to continue to operate effectively from home.
- Providing Employee Assistance Programs and other programs to support the mental and physical well-being of our employees, Consultants, and their families.
- Developing a return to office strategy to safely allow employees and advisors to return to the office when appropriate.

5) ENVIRONMENTAL AND SOCIAL RISK

This is the potential for financial loss or other unfavourable impacts resulting from environmental or social issues connected to our business operations or investment activities.

Environmental risks include issues such as climate change, biodiversity, pollution, waste, and the unsustainable use of energy, water and other resources. Social risks include issues such as human rights, labour standards, diversity and inclusion, and community impacts.

IGM Financial has a long-standing commitment to responsible management, as articulated in our Corporate Responsibility Statement approved by the Board of Directors. The Board's risk management oversight includes ensuring that material environmental and social risks are appropriately identified, managed and monitored.

The Company's executive Risk Management Committee is responsible for oversight of the risk management process. Other management committees provide oversight of specific risks including the Corporate Responsibility (CR) Committee and the Diversity and Inclusion Executive Council. The CR Committee is composed of senior executives who are responsible for ensuring implementation of policy and strategy, establishing goals and initiatives, measuring progress, and approving annual reporting for environmental, social and governance (ESG) matters.

Our commitment to responsible management is demonstrated through various mechanisms. These include our Code of Conduct for employees, contractors, and directors; our Supplier Code of Conduct for the firms that do business with us; our Respectful Workplace Policy; our Diversity Policy; our Environmental Policy; and other related policies.

IG Wealth Management and Mackenzie Investments are signatories to the Principles for Responsible Investment (PRI). IG Wealth Management sub-advisors were also required to be signatories to the PRI by the end of 2019. Under the PRI, investors formally commit to incorporate ESG issues into their investment decision making and active ownership processes. In addition, IG Wealth Management, Mackenzie Investments and Investment Planning Counsel have implemented Responsible Investment Policies outlining the practices at each company.

IGM Financial reports annually on ESG management and performance in its Corporate Responsibility Report available on our website. The Company has been recognized for demonstrating strong ESG performance through positions earned on the FTSE4Good Index Series, Jantzi Social Index, Corporate Knights' 2021 Global 100 and Best 50 Corporate Citizens, and has been recognized by CDP at the leadership level for the past three years for its climate disclosures.

We believe that financial services companies have an important role to play in addressing climate change. IGM Financial is

a long-standing participant in the CDP (formerly Carbon Disclosure Project), which promotes corporate disclosures on greenhouse gas emissions and climate change management including setting and monitoring emission reduction targets. We have been recognized by CDP at the leadership level for the past three years for our climate disclosures.

Global practices are continually evolving relating to the identification, analysis, and management of climate risks and opportunities. The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) was established in response to investor demand for enhanced information on climate-related risks and opportunities. IGM Financial and its operating companies support the TCFD recommendations which include a framework for consistent, voluntary climate-related financial disclosures that provide decision-useful information to investors, analysts, rating agencies and other stakeholders.

TCFD DISCLOSURE

The TCFD recommends that organizations disclose information about climate-related risks and opportunities in four areas: governance, strategy, risk management, and metrics and targets. Full implementation of TCFD will be a multi-year journey.

Governance: IGM Financial's Board is responsible for providing oversight on risk and strategy, which includes climate-related matters. Through its Risk Committee, the Board is responsible for ensuring that material climate-related issues are appropriately identified, managed and monitored. Our Chief Financial Officer (CFO) oversees implementation of the CR and Enterprise Risk Management programs. We have established an enterprise wide TCFD Working Group of senior leaders to lead the planning and implementation of the TCFD recommendations. This working group is focused on enhancing our knowledge and tools to quantify climate risks in tandem with our industry, further integrating climate into our business strategy and product offering for clients, evolving our engagement approach with investee companies, and addressing increased disclosure expectations.

Strategy: Climate-related opportunities are identified and assessed within IGM Financial through our business planning processes which define our strategic priorities, initiatives and budgets. In addition to our commitments described above to be responsible investors through engagement and integration of material climate issues into our investment processes, we also offer investment products with specific environmental or social mandates.

At Mackenzie Investments, sustainable investing is one of our key areas of strategic emphasis, and we have established a dedicated function which reports to the CEO. We also have an investment boutique, Greenchip, which is exclusively focused on thematic investing to fight climate change.

At IG Wealth, we have integrated environmental and climate issues into our sub-advisory selection and oversight processes, and have requirements for all sub-advisors to our product offering to be UN PRI signatories. We have a Sustainable and Responsible Investing Committee whose responsibilities include incorporation of climate change awareness and management into our product and service offerings, and we have established education and communication programs for our financial planners.

Risk Management: Assessment and management of climate-related risks is integrated into our ERM framework. At Mackenzie Investments, our boutique investment teams are each responsible for determining when and how climate change is material and how to incorporate transition and physical risks into their investment process. The teams have access to ESG data tools and a service provider for comprehensive global investor engagement who places a priority on climate change

engagement. To help aid in the assessment of material climate risks and opportunities, Mackenzie Investments is in the process of implementing the Sustainability Accounting Standards Board framework and a tool to enhance climate data and analytics. We are following the development of climate scenario tools for our industry in order to incorporate scenario planning to enhance our understanding of how our clients and the Company will be impacted by various climate change scenarios.

Metrics and Targets: We set, monitor and report on climate change-related metrics and targets annually in our CDP response and our CR Report which are available at igmfinancial.com/en/corporate-responsibility. We are reviewing tools to expand our reporting of emissions metrics in our investment portfolios. We have set emission reduction and renewable energy targets in our operations and are on track to meet these goals. As we continue to develop our climate strategy, we will review our targets to continue measuring our progress.

The Financial Services Environment

Canadians held \$5.0 trillion in discretionary financial assets with financial institutions at December 31, 2019 based on the most recent report from Investor Economics. The nature of holdings was diverse, ranging from demand deposits held for short-term cash management purposes to longer-term investments held for retirement purposes. Approximately 66% (\$3.3 trillion) of these financial assets are held within the context of a relationship with a financial advisor, and this is the primary channel serving the longer-term savings needs of Canadians. Of the \$1.7 trillion held outside of a financial advisory relationship, approximately 61% consisted of bank deposits.

Financial advisors represent the primary distribution channel for IGM Financial's products and services, and the core emphasis of our business model is to support these financial advisors as they work with clients to plan for and achieve their financial goals. Multiple sources of emerging research show significantly better financial outcomes for Canadians who use financial advisors compared to those who do not. We actively promote the value of financial advice and the importance of a relationship with an advisor to develop and remain focused on long-term financial plans and goals.

Approximately 41% of Canadian discretionary financial assets or \$2.0 trillion resided in investment funds at December 31, 2019, making it the largest financial asset class held by Canadians. Other asset types include deposit products and direct securities such as stocks and bonds. Approximately 77% of investment funds are comprised of mutual fund products, with other product categories including segregated funds, hedge funds, pooled funds, closed end funds and exchange traded funds. With \$162 billion in investment fund assets under management at December 31, 2020, IGM Financial is among the country's largest investment fund managers. We believe that investment funds are likely to remain the preferred savings vehicle of Canadians. They offer the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

Traditional distinctions between bank branches, full-service brokerages, financial planning firms and insurance agent sales forces have become obscured as many of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf. Accordingly, the Canadian financial services industry is characterized by a number of large, diversified, vertically-integrated participants, similar to IGM Financial, that offer both financial planning and investment management services.

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches

continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 42% of total industry long-term mutual fund assets at December 31, 2020.

The Canadian mutual fund industry continues to be very concentrated, with the 10 largest firms and their subsidiaries representing 73% of industry long-term mutual fund assets and 73% of total mutual fund assets under management at December 31, 2020. We anticipate continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

We believe that the financial services industry will continue to be influenced by the following trends:

- Shifting demographics as the number of Canadians in their prime savings and retirement years continues to increase.
- Changes in investor attitudes based on economic conditions.
- Continued importance of the role of the financial advisor.
- Public policy related to retirement savings.
- Changes in the regulatory environment.
- A highly competitive landscape.
- Advancing and changing technology.

THE COMPETITIVE LANDSCAPE

Our subsidiaries IG Wealth Management and Investment Planning Counsel compete directly with other retail financial service providers in the advice segment, including other financial planning firms, as well as full service brokerages, banks and insurance companies. Our asset management subsidiary, Mackenzie Investments, competes directly with other investment managers for assets under management, and our products compete with stocks, bonds and other asset classes for a share of Canadians' investment assets.

Competition from other financial service providers, alternative product types or delivery channels, and changes in regulations or public preferences could impact the characteristics of our product and service offerings, including pricing, product structures, dealer and advisor compensation and disclosure. We monitor developments on an ongoing basis, and engage in policy discussions and develop product and service responses as appropriate.

IGM Financial continues to focus on our commitment to provide quality investment advice and financial products, service innovations, effective and responsible management of the Company and long-term value for our clients and shareholders. We are midway through a five-year transformation to modernize

our digital platforms and technology infrastructure to enhance operations, achieve efficiencies and improve the service experience for our clients. We believe that IGM Financial is well-positioned to meet competitive challenges and capitalize on future growth opportunities.

Our competitive strength includes:

- Broad and diversified distribution through more than 35,000 financial advisors, with an emphasis on comprehensive financial planning.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.
- Benefits of being part of the Power Corporation group of companies.

BROAD AND DIVERSIFIED DISTRIBUTION

In addition to owning two of Canada's largest financial planning organizations, IG Wealth Management and Investment Planning Counsel, IGM Financial has, through Mackenzie, access to distribution through over 30,000 independent financial advisors.

Mackenzie also, in its growing strategic alliance business, partners with global manufacturing and distribution entities to provide investment management services.

BROAD PRODUCT CAPABILITIES

Our subsidiaries continue to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

ENDURING CLIENT RELATIONSHIPS

IGM Financial enjoys significant advantages as a result of the enduring relationships that advisors have developed with clients. In addition, our subsidiaries have strong heritages and cultures which are challenging for competitors to replicate.

PART OF THE POWER CORPORATION GROUP OF COMPANIES

As part of the Power Corporation group of companies, IGM Financial benefits through expense savings from shared service arrangements, as well as through access to distribution, products and capital.

Critical Accounting Estimates and Policies

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying accounting policies and requires management to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements and accompanying notes. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the financial services industry; others are specific to IGM Financial's businesses and operations. IGM Financial's significant accounting policies are described in detail in Note 2 of the Consolidated Financial Statements.

Critical accounting estimates relate to the fair value of financial instruments, goodwill and intangibles, income taxes, capitalized sales commissions, provisions and employee benefits.

The major critical accounting estimates are summarized below:

- *Fair value of financial instruments* – The Company's financial instruments are carried at fair value, except for loans, deposits and certificates, obligations to securitization entities, and long-term debt which are all carried at amortized cost. The fair value of publicly traded financial instruments is determined using published market prices. The fair value of financial instruments where published market prices are not available, including derivatives related to the Company's securitized loans, are determined using various valuation models which maximize the use of observable market inputs where available. Valuation methodologies and assumptions used in valuation models are reviewed on an ongoing basis. Changes in these assumptions or valuation methodologies could result in significant changes in net earnings.
- *Goodwill and intangible assets* – Goodwill, indefinite life intangible assets, and definite life intangible assets are reflected in Note 11 of the Consolidated Financial Statements. The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing the recoverable amounts, valuation approaches are used that include discounted cash flow analysis and application of capitalization multiples to financial and operating metrics based upon precedent acquisition transactions and trading comparables. Assumptions and estimates employed include future changes in assets under management resulting from net sales and investment returns, pricing and profit margin changes, discount rates, and capitalization multiples.

The Company completed its annual impairment tests of goodwill and indefinite life intangible assets as at April 1, 2020, and determined there was no impairment in the value of those assets.

- *Income taxes* – The provision for income taxes is determined on the basis of the anticipated tax treatment of transactions recorded in the Consolidated Statements of Earnings. The determination of the provision for income taxes requires interpretation of tax legislation in a number of jurisdictions. Tax planning may allow the Company to record lower income taxes in the current year and income taxes recorded in prior years may be adjusted in the current year to reflect management's best estimates of the overall adequacy of its provisions. Any related tax benefits or changes in management's best estimates are reflected in the provision for income taxes. The recognition of deferred tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the deferred tax asset or liability recorded is based on management's best estimate of the timing of the realization of the assets or liabilities. If our interpretation of tax legislation differs from that of the tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods. Additional information related to income taxes is included in the Summary of Consolidated Operating Results in this MD&A and in Note 15 to the Consolidated Financial Statements.
- *Capitalized sales commissions* – Commissions paid directly by the client on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. The Company regularly reviews the carrying value of capitalized sales commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by the Company to assess recoverability is the comparison of the future economic benefits derived from the capitalized sales commission asset in relation to its carrying value. At December 31, 2020, there were no indications of impairment to capitalized sales commissions.
- *Provisions* – A provision is recognized when there is a present obligation as a result of a past transaction or event, it is

"probable" that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. In determining the best estimate for a provision, a single estimate, a weighted average of all possible outcomes, or the midpoint where there is a range of equally possible outcomes are all considered. A significant change in assessment of the likelihood or the best estimate may result in additional adjustments to net earnings.

- *Employee benefits* – The Company maintains a number of employee benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, unfunded supplementary executive retirement plans for certain executive officers (SERPs) and an unfunded post-employment health care and life insurance plan for eligible retirees. The funded registered defined benefit pension plan provides pensions based on length of service and final average earnings. The measurement date for the Company's defined benefit pension plan assets and for the accrued benefit obligations on all defined benefit plans is December 31.

Due to the long-term nature of these plans, the calculation of the accrued benefit liability depends on various assumptions including discount rates, rates of return on assets, the level and types of benefits provided, healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. The discount rate assumption is determined using a yield curve of AA corporate debt securities. All other assumptions are determined by management and reviewed by independent actuaries who calculate the pension and other future benefits expenses and accrued benefit obligations. Actual experience that differs from the actuarial assumptions will result in actuarial gains or losses as well as changes in benefits expense. The Company records actuarial gains and losses on all of its defined benefit plans in Other comprehensive income.

During 2020, the performance of the defined benefit pension plan assets was positively impacted by market conditions. Corporate bond yields decreased in 2020 thereby impacting the discount rate used to measure the Company's accrued benefit liability. The discount rate utilized to value the defined benefit pension plan accrued benefit liability at December 31, 2020 was 2.70% compared to 3.20% at December 31, 2019. Pension plan assets increased to \$517.0 million at December 31, 2020 from \$466.5 million at December 31, 2019. The increase in plan assets was due to

market performance of \$26.1 million comprised of interest income of \$14.9 million calculated based on the discount rate, which was recorded as a reduction to the pension expense, and actuarial gains of \$11.2 million, which were recorded in Other comprehensive income. The assets in the Company's registered defined benefit pension plan also increased due to the Company contributing \$25.6 million (2019 – \$26.4 million) to the pension plan. The decrease in the discount rate utilized to value the defined benefit pension plan obligation resulted in actuarial losses of \$57.2 million which were recorded in Other comprehensive income. Demographic assumptions and experience adjustments were revised which resulted in nominal net actuarial gains. The total defined benefit pension plan obligation was \$650.1 million at December 31, 2020 compared to \$565.6 million at December 31, 2019. As a result of these changes, the defined benefit pension plan had an accrued benefit liability of \$133.1 million at December 31, 2020 compared to \$99.1 million at the end of 2019. The unfunded SERPs and other post-retirement benefits plans had an accrued benefit liability of \$74.8 million and \$42.1 million, respectively, at December 31, 2020 compared to \$69.2 million and \$39.1 million in 2019.

A decrease of 0.25% in the discount rate utilized in 2020 would result in a change of \$31.4 million in the accrued pension obligation, \$29.3 million in other comprehensive income, and \$2.1 million in pension expense. Additional information regarding the Company's accounting and sensitivities related to pensions and other post-retirement benefits is included in Notes 2 and 14 of the Consolidated Financial Statements.

CHANGES IN ACCOUNTING POLICIES

IGM Financial has not adopted any changes in accounting policies in 2020.

FUTURE ACCOUNTING CHANGES

The Company continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Company's operations.

The IASB is currently undertaking a number of projects which will result in changes to existing IFRS standards that may affect the Company. Updates will be provided as the projects develop.

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that (a) material information relating to the Company is made known to the President and Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared, and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on their evaluations as of December 31, 2020, the President and Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting.

All internal control systems have inherent limitations and may become inadequate because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Effective November 18, 2019, IGM Financial entered into an outsourcing agreement with CIBC Mellon to assume most of IGM Financial's fund services functions. This adds fund administration servicing solutions to the custody and related services that CIBC Mellon already performs for IGM Financial. As a result of the outsourcing, substantially all of IGM Financial's employees in the outsourced functions were hired by CIBC Mellon and continued performing the same functions during the remainder of the fourth quarter. Contractually, CIBC Mellon is required to develop and implement internal controls and has agreed to work with IGM Financial to implement compliance measures to satisfy CSA National Instrument 52-109. CIBC Mellon has agreed to make minimal changes to processes and systems through 2020. Accordingly, management has concluded

that this outsourcing has not materially affected the Company's internal controls in 2020. As the transition proceeds over the coming months and years, management will continually reassess its impact on the Company's internal control over financial reporting.

The Company's management, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting based on the Internal Control – Integrated Framework (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission. The Company transitioned to the COSO 2013 Framework during 2014. Based on their evaluations as of December 31, 2020, the President and Chief Executive Officer and the Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Notwithstanding the above, during the fourth quarter of 2020, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Other Information

TRANSACTIONS WITH RELATED PARTIES

IGM Financial enters into transactions with The Canada Life Assurance Company (Canada Life), which is a subsidiary of its affiliate, Lifeco, which is a subsidiary of Power Corporation of Canada. On January 1, 2020, Great-West, London Life and Canada Life, amalgamated into a single company, The Canada Life Assurance Company. These transactions are in the normal course of operations and have been recorded at fair value:

- During 2020 and 2019, the Company provided to and received from Canada Life certain administrative services enabling each organization to take advantage of economies of scale and areas of expertise. In 2020, IGM notified Canada Life of its intention to terminate its long-term technology infrastructure related sharing agreement.
- The Company distributes insurance products under a distribution agreement with Canada Life and received \$45.1 million in distribution fees (2019 – \$54.8 million). The Company received \$18.4 million (2019 – \$17.1 million) and paid \$29.6 million (2019 – \$26.2 million) to Canada Life and related subsidiary companies for the provision of sub-advisory services for certain investment funds. The Company paid \$78.3 million (2019 – \$78.8 million) to Canada Life related to the distribution of certain mutual funds of the Company.
- In order to manage its overall liquidity position, the Company's mortgage banking operation is active in the securitization market and also sells residential mortgage loans to third parties, on a fully serviced basis. During 2020, the Company sold residential mortgage loans to Canada Life for \$20.9 million compared to \$10.8 million in 2019.

After obtaining advanced tax rulings in October 2017, the Company agreed to tax loss consolidation transactions with

the Power Corporation of Canada group whereby shares of a subsidiary that has generated tax losses may be acquired in each year up to and including 2020. The Company recognized the benefit of the tax losses realized throughout the year. On each of December 31, 2020 and December 31, 2019, the Company acquired shares of such loss companies and recorded the benefit of the tax losses acquired. The benefits from these tax loss consolidation arrangements ended at December 31, 2020.

Additional transactions with related parties included the sale of Personal Capital, the investment in Northleaf, the acquisition of GLC Asset Management Group Ltd. and the sale of Quadrus Group of Funds (Note 8 and Note 29 of the Consolidated Financial Statements).

For further information on transactions involving related parties, see Notes 8 and 26 to the Company's Consolidated Financial Statements.

OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at December 31, 2020 totalled 238,308,284. Outstanding stock options as at December 31, 2020 totalled 11,930,224 of which 6,326,067 were exercisable. As at February 5, 2021, outstanding common shares totalled 238,312,192 and outstanding stock options totalled 11,918,854 of which 6,322,159 were exercisable.

SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at www.sedar.com.

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consolidated financial statements

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Independent Auditor's Report

To the Shareholders of IGM Financial Inc.

OPINION

We have audited the consolidated financial statements of IGM Financial Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill – Asset Management cash generating unit – Refer to Notes 2 and 11 to the financial statements

Key Audit Matter Description

The Company's evaluation of goodwill for impairment involves the comparison of the recoverable amount of each cash generating unit ("CGU") to its carrying value. The recoverable amount of the Asset Management CGU is based on fair value less costs of disposal, which is determined using both a market approach based on valuation multiples and an income approach based on a discounted cash flow analysis. In determining the recoverable amount of the Asset Management CGU, management made significant estimates and assumptions related to market multiples, changes in future assets under management resulting from net sales and investment returns, pricing levels, and discount rates. The recoverable amount of the Asset Management CGU exceeded its carrying value as of the measurement date and no impairment was recognized.

While there are several estimates and assumptions that are required to determine the recoverable amount of the Asset Management CGU, the estimates and assumptions with the highest degree of subjectivity are the valuation multiples used in the market approach and the future changes in assets under management resulting from net sales and investment returns, pricing levels, and discount rates used in the income approach. This required significant auditor attention as these estimates are subject to estimation uncertainty and the impact to the assumptions from the COVID-19 pandemic. Auditing these estimates and assumptions required a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures which resulted in an increased extent of audit effort and the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to market multiples, future changes in assets under management resulting from net sales and investment returns, pricing levels, and discount rates used to determine the recoverable amount of the Asset Management CGU included the following, among others:

- With the assistance of fair value specialists, evaluated the valuation multiples by analyzing precedent business acquisition transactions and comparable public company multiples and developing a range of independent market multiples and comparing them to those selected by management.
- Evaluated management's ability to accurately forecast future changes in assets under management resulting from net sales and investment returns, and pricing levels by comparing actual results to management's historical forecasts.
- Evaluated the reasonableness of forecasted future changes in assets under management resulting from net sales and investment returns, and pricing levels by comparing the forecasts to:
 - Historical changes in assets under management resulting from net sales and investment returns with consideration to historical market and industry returns;
 - Historical pricing levels; and
 - Known changes to the Asset Management CGU's operations and its industry, including the impact of the COVID-19 pandemic to future operating performance.
- With the assistance of fair value specialists, evaluated the discount rates by testing the source information underlying the determination of the discount rates and developing a range of independent discount rates and comparing to those selected by management.

Investment in Associates – Acquisition of Northleaf Capital Group Ltd. – Refer to Notes 2 and 8 to the financial statements

Key Audit Matter Description

On October 29, 2020, the Company acquired a non-controlling interest in Northleaf Capital Group Ltd. ("Northleaf") and owns a 49.9% voting interest and 70% economic interest in Northleaf with a future obligation and right to purchase additional economic and voting interest commencing in approximately five years and extending into the future. The Company determined that it does not have control over the investment in Northleaf but rather significant influence, and as such applied the equity method of accounting.

The determination of the accounting treatment for the investment in Northleaf required management to evaluate whether the Company exercised control or significant influence over the investment. This involved significant management judgment to interpret the key agreement and legal terms of the purchase agreement and other legal agreements associated with the acquisition. Auditing whether the Company exercised control or significant influence over the investment in Northleaf required a high degree of auditor judgment which resulted in an increased extent of audit effort and the involvement of professionals in our firm with expertise in business combinations and consolidation.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the evaluation of whether the Company exercised control or significant influence over the investment in Northleaf, included the following, among others:

- Confirmed the key agreement and legal terms of the purchase agreement and other legal agreements directly with legal counsel and assessed the terms of the purchase agreement and other legal agreements to determine whether all key facts and circumstances were incorporated into management's assessment.
- With the assistance of professionals in our firm with expertise in business combinations and consolidation, evaluated management's assessment of whether the Company exercised control or significant influence over the investment in Northleaf by analyzing specific facts and circumstances to relevant accounting guidance.

Independent Auditor's Report (continued)

OTHER INFORMATION

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is David Dalziel.

**Signed,
Deloitte LLP**

Chartered Professional Accountants

Winnipeg, Manitoba

February 11, 2021

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31
(in thousands of Canadian dollars, except per share amounts)

	2020	2019
Revenues		
Wealth management	\$ 2,259,576	\$ 2,299,048
Asset management	812,931	792,327
Dealer compensation expense	(283,163)	(277,075)
Net asset management	529,768	515,252
Net investment income and other (Notes 8 and 29)	78,209	24,825
Proportionate share of associates' earnings (Note 8)	150,429	105,225
	3,017,982	2,944,350
Expenses (Note 3)		
Advisory and business development	1,040,146	1,066,021
Operations and support	830,650	733,045
Sub-advisory	71,213	68,232
Interest (Note 16)	110,597	108,386
	2,052,606	1,975,684
Earnings before income taxes	965,376	968,666
Income taxes (Note 15)	200,770	219,719
Net earnings	764,606	748,947
Non-controlling interest (Note 8)	(198)	–
Perpetual preferred share dividends	–	(2,213)
Net earnings available to common shareholders	\$ 764,408	\$ 746,734
Earnings per share (in dollars) (Note 24)		
– Basic	\$ 3.21	\$ 3.12
– Diluted	\$ 3.21	\$ 3.12

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31
(in thousands of Canadian dollars)

	2020	2019
Net earnings	\$ 764,606	\$ 748,947
Other comprehensive income (loss), net of tax		
Items that will not be reclassified to Net earnings		
Fair value through other comprehensive income investments		
Other comprehensive income (loss) (Note 4), net of tax of \$(38,565) and \$(1,651)	247,085	10,597
Employee benefits		
Net actuarial gains (losses), net of tax of \$11,461 and \$6,243	(31,002)	(16,895)
Investment in associates – employee benefits and other		
Other comprehensive income (loss), net of tax of nil	(2,906)	(19,129)
Items that may be reclassified subsequently to Net earnings		
Investment in associates and other		
Other comprehensive income (loss), net of tax of \$(1,900) and \$3,448	50,889	(35,009)
	264,066	(60,436)
Total comprehensive income	\$ 1,028,672	\$ 688,511

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31
(in thousands of Canadian dollars)

2020 2019

Assets

Cash and cash equivalents	\$ 771,585	\$ 720,005
Other investments (Note 4)	632,300	357,362
Client funds on deposit	1,063,442	561,269
Accounts and other receivables	444,458	394,210
Income taxes recoverable	30,366	11,925
Loans (Note 5)	6,331,855	7,198,043
Derivative financial instruments (Note 22)	37,334	15,204
Other assets (Note 7)	49,782	45,843
Investment in associates (Note 8)	1,931,168	1,753,882
Capital assets (Note 9)	329,690	216,956
Capitalized sales commissions (Note 10)	231,085	149,866
Deferred income taxes (Note 15)	84,624	76,517
Intangible assets (Note 11)	1,321,590	1,230,127
Goodwill (Note 11)	2,803,075	2,660,267
	\$ 16,062,354	\$ 15,391,476

Liabilities

Accounts payable and accrued liabilities	\$ 486,575	\$ 434,957
Income taxes payable	7,146	4,867
Derivative financial instruments (Note 22)	34,514	17,193
Deposits and certificates (Note 12)	1,104,889	584,331
Other liabilities (Note 13)	536,141	441,902
Obligations to securitization entities (Note 6)	6,173,886	6,913,636
Lease obligations	188,334	90,446
Deferred income taxes (Note 15)	388,079	305,049
Long-term debt (Note 16)	2,100,000	2,100,000
	11,019,564	10,892,381

Shareholders' Equity

Share capital (Note 17)		
Common shares	1,598,381	1,597,860
Contributed surplus	51,663	48,677
Retained earnings	3,207,469	2,980,260
Accumulated other comprehensive income (loss) (Note 20)	136,364	(127,702)
Non-controlling interest (Note 8)	48,913	–
	5,042,790	4,499,095
	\$ 16,062,354	\$ 15,391,476

These financial statements were approved and authorized for issuance by the Board of Directors on February 11, 2021.

Signed,

James O'Sullivan
Director

Signed,

John McCallum
Director

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)	SHARE CAPITAL			RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Note 20)	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
	PERPETUAL PREFERRED SHARES (Note 17)	COMMON SHARES (Note 17)	CONTRIBUTED SURPLUS				
2020							
Balance, beginning of year	\$ -	\$ 1,597,860	\$ 48,677	\$ 2,980,260	\$ (127,702)	\$ -	\$ 4,499,095
Net earnings	-	-	-	764,606	-	-	764,606
Other comprehensive income (loss), net of tax	-	-	-	-	264,066	-	264,066
Total comprehensive income	-	-	-	764,606	264,066	-	1,028,672
Common shares							
Issued under stock option plan	-	521	-	-	-	-	521
Stock options							
Current period expense	-	-	3,010	-	-	-	3,010
Exercised	-	-	(24)	-	-	-	(24)
Common share dividends	-	-	-	(536,194)	-	-	(536,194)
Issuance of non-controlling interest	-	-	-	(198)	-	48,913	48,715
Other	-	-	-	(1,005)	-	-	(1,005)
Balance, end of year	\$ -	\$ 1,598,381	\$ 51,663	\$ 3,207,469	\$ 136,364	\$ 48,913	\$ 5,042,790
2019							
Balance, beginning of year	\$ 150,000	\$ 1,611,263	\$ 45,536	\$ 2,834,998	\$ (45,798)	\$ -	\$ 4,595,999
Net earnings	-	-	-	748,947	-	-	748,947
Other comprehensive income (loss), net of tax	-	-	-	-	(60,436)	-	(60,436)
Total comprehensive income	-	-	-	748,947	(60,436)	-	688,511
Redemption of preferred shares	(150,000)	-	-	-	-	-	(150,000)
Common shares							
Issued under stock option plan	-	5,111	-	-	-	-	5,111
Purchased for cancellation	-	(18,514)	-	-	-	-	(18,514)
Stock options							
Current period expense	-	-	3,406	-	-	-	3,406
Exercised	-	-	(265)	-	-	-	(265)
Perpetual preferred share dividends	-	-	-	(2,213)	-	-	(2,213)
Common share dividends	-	-	-	(537,588)	-	-	(537,588)
Transfer out of fair value through other comprehensive income	-	-	-	21,468	(21,468)	-	-
Common share cancellation excess and other	-	-	-	(85,352)	-	-	(85,352)
Balance, end of year	\$ -	\$ 1,597,860	\$ 48,677	\$ 2,980,260	\$ (127,702)	\$ -	\$ 4,499,095

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31
(in thousands of Canadian dollars)

	2020	2019
Operating activities		
Earnings before income taxes	\$ 965,376	\$ 968,666
Income taxes paid	(172,319)	(236,676)
Adjustments to determine net cash from operating activities		
Capitalized sales commission amortization	36,433	22,387
Capitalized sales commissions paid	(117,652)	(67,209)
Amortization of capital, intangible and other assets	83,498	79,496
Proportionate share of associates' earnings, net of dividends received	(71,328)	(32,251)
Pension and other post-employment benefits	(4,758)	(4,810)
Restructuring provisions and other	74,460	–
Gain on sale of Personal Capital Corporation	(37,232)	–
Gain on sale of Quadrus Group of Funds	(30,000)	–
Changes in operating assets and liabilities and other	26,772	9,316
Cash from operating activities before restructuring provision payments	753,250	738,919
Restructuring provision cash payments	(16,625)	(26,853)
	736,625	712,066
Financing activities		
Net decrease in deposits and certificates	(5,832)	(2,472)
Increase in obligations to securitization entities	1,568,521	1,456,265
Repayments of obligations to securitization entities and other	(2,359,844)	(1,960,757)
Repayment of lease obligations	(25,579)	(23,370)
Issue of debentures	–	250,000
Redemption of preferred shares	–	(150,000)
Issue of common shares	498	4,846
Common shares purchased for cancellation	–	(99,963)
Perpetual preferred share dividends paid	–	(4,425)
Common share dividends paid	(536,186)	(539,046)
	(1,358,422)	(1,068,922)
Investing activities		
Purchase of other investments	(32,651)	(118,917)
Proceeds from the sale of other investments	38,840	85,462
Increase in loans	(1,792,995)	(1,682,079)
Repayment of loans and other	2,679,740	2,211,504
Net additions to capital assets	(38,991)	(18,813)
Net cash used in additions to intangible assets and acquisitions	(68,808)	(64,121)
Investment in Northleaf Capital Group Ltd. (Note 8)	(198,793)	–
Acquisition of GLC Asset Management Group Ltd. (Note 29)	(175,788)	–
Proceeds from sale of Personal Capital Corporation (Note 8)	232,823	–
Investment in Personal Capital Corporation	–	(66,811)
Proceeds from sale of Quadrus Group of Funds (Note 8)	30,000	–
Proceeds from substantial issuer bid (Note 8)	–	80,408
	673,377	426,633
Increase in cash and cash equivalents	51,580	69,777
Cash and cash equivalents, beginning of year	720,005	650,228
Cash and cash equivalents, end of year	\$ 771,585	\$ 720,005
Cash	\$ 76,617	\$ 67,986
Cash equivalents	694,968	652,019
	\$ 771,585	\$ 720,005
Supplemental disclosure of cash flow information related to operating activities		
Interest and dividends received	\$ 267,369	\$ 301,738
Interest paid	\$ 256,272	\$ 271,914

(See accompanying notes to consolidated financial statements.)

Notes to Consolidated Financial Statements

December 31, 2020 and 2019 (In thousands of Canadian dollars, except shares and per share amounts)

NOTE 1 CORPORATE INFORMATION

IGM Financial Inc. (the Company) is a publicly listed company (TSX: IGM), incorporated and domiciled in Canada. The registered address of the Company is 447 Portage Avenue, Winnipeg, Manitoba, Canada. The Company is controlled by Power Corporation of Canada.

IGM Financial Inc. is a wealth and asset management company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly within the advice segment of the financial services market. The Company's wholly-owned principal subsidiaries are Investors Group Inc. and Mackenzie Financial Corporation (Mackenzie).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The policies set out below were consistently applied to all the periods presented unless otherwise noted.

USE OF JUDGMENT, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying accounting policies and requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements. The key areas where judgment has been applied include: the determination of which financial assets should be derecognized; the assessment of the appropriate classification of financial instruments, including those classified as fair value through profit or loss; and the assessment that significant influence exists for its investment in associates. Key components of the financial statements requiring management to make estimates include: the fair value of financial instruments, goodwill, intangible assets, income taxes, capitalized sales commissions, provisions and employee benefits. Actual results may differ from such estimates. Further detail of judgments and estimates are found in the remainder of Note 2 and in Notes 6, 8, 10, 11, 13, 14, 15, 23 and 29. The twelve months ended December 31, 2020 were characterized by increased uncertainty due to COVID-19. The Company is closely monitoring the current environment and assessing the impacts, if any, on its significant assumptions related to critical estimates.

BASIS OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Company controls when it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its power to direct the relevant activities of the entity.

The Company's investments in Great-West Lifeco Inc. (Lifeco), China Asset Management Co., Ltd. (China AMC) and Northleaf Capital Group Ltd. (Northleaf) are accounted for using the equity method. The investments were initially recorded at cost and the carrying amounts are increased or decreased to recognize the Company's share of the investments' comprehensive income (loss) and the dividends received since the date of acquisition. The equity method was used to account for the Company's equity interest in Personal Capital Corporation (Personal Capital) until the announcement of the sale of the investment on June 29, 2020.

CHANGES IN PRESENTATION

In the third quarter of 2020, the Company realigned its reportable segments and made disclosure enhancements to its Consolidated Statements of Earnings to better characterize the Company's business lines and improve transparency into the key drivers of the business. These changes have had no impact on the reported earnings of the Company.

The Company restated comparative figures in its Consolidated Statements of Earnings and Segmented information note to conform to the current period's presentation. The changes had no impact to prior period earnings and no impact to the Consolidated Balance Sheets.

CHANGES IN PRESENTATION (continued)**Segment reporting**

The Company has realigned its reportable segments (Note 28) as follows:

- **Wealth Management** – reflects the activities of operating companies that are principally focused on providing financial planning and related services to Canadian households. This segment includes the activities of IG Wealth Management and Investment Planning Counsel. These firms are retail distribution organizations who serve Canadian households through their securities dealers, mutual fund dealers and other subsidiaries licensed to distribute financial products and services. A majority of the revenues of this segment are derived from providing financial advice and distributing financial products and services to Canadian households. This segment also includes the investment management activities of these organizations, including mutual fund management and discretionary portfolio management services.
- **Asset Management** – reflects the activities of operating companies primarily focused on providing investment management services, and represents the operations of Mackenzie Investments. Investment management services are provided to a suite of investment funds that are distributed through third party dealers and financial advisors, and also through institutional advisory mandates to financial institutions, pensions and other institutional investors.
- **Strategic Investments and Other** – primarily represents the key strategic investments made by the Company, including China Asset Management Co., Ltd., Great-West Lifeco Inc., Northleaf Capital Group Ltd., Wealthsimple Financial Corp., and Portag3 Ventures LPs. Unallocated capital is also included within this segment.

Statements of Earnings

The Company has reclassified its Statement of Earnings as follows:

- **Wealth management revenue** – revenues earned by the Wealth Management segment for providing financial planning, investment advisory and related financial services. Revenues include financial advisory fees, investment management and related administration fees, distribution revenue associated with insurance and banking products and services, and revenue relating to mortgage lending activities.
- **Asset management revenue** – revenues earned by the Asset Management segment related to investment management advisory and administrative services.
- **Dealer compensation** – asset based and sales based compensation paid to dealers by the Asset Management segment.
- **Advisory and business development expenses** – expenses incurred on activities directly associated with providing financial planning services to clients of the Wealth Management segment. Expenses include compensation, recognition and other support provided to our financial advisors, field management, product and planning specialists; expenses associated with facilities, technology and training relating to our financial advisors and specialists; other business development activities including direct marketing and advertising; and wholesale distribution activities performed by the Asset Management segment. A significant component of these expenses vary directly with levels of assets under management or advisement, business development measures including sales and client acquisition, and the number of advisor and client relationships.
- **Operations and support expenses** – expenses associated with business operations including technology and business processes; in-house investment management and product shelf management; corporate management and support functions. These expenses primarily reflect compensation and technology and other service provider expenses.
- **Sub-advisory expenses** – reflects fees relating to investment management services provided by third party or related party investment management organizations. These fees typically are variable with the level of assets under management. These fees include investment advisory services performed for the Wealth Management segment by the Asset Management segment.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CHANGES IN PRESENTATION (continued)

Statements of Earnings (continued)

The following tables provide reconciliations from current presentation to prior period presentation for the Consolidated Statement of Earnings.

2020

PRIOR PRESENTATION		MANAGEMENT AND ADVISORY FEES	ADMINISTRATION FEES	DISTRIBUTION FEES	NET INVESTMENT INCOME AND OTHER	PROPORTIONATE SHARE OF ASSOCIATES' EARNINGS	COMMISSION EXPENSE	NON- COMMISSION EXPENSE	INTEREST EXPENSE	EARNINGS BEFORE INCOME TAXES
		\$ 2,282,908	\$ 403,417	\$ 346,289	\$ 129,412	\$ 150,429	\$ 1,088,343	\$ 1,148,139	\$ 110,597	\$ 965,376
CURRENT PRESENTATION										
Revenues										
Wealth management	\$ 2,259,576	1,564,667	301,902	341,804	51,203					
Asset management	812,931	718,241	101,515	4,485				(11,310)		
Dealer compensation	(283,163)						(283,163)			
Net asset management	529,768	718,241	101,515	4,485			(283,163)	(11,310)		
Net investment income and other	78,209				78,209					
Proportionate share of associates' earnings (Note 8)	150,429					150,429				
	3,017,982	2,282,908	403,417	346,289	129,412	150,429	(283,163)	(11,310)		
Expenses										
Advisory and business development	1,040,146						805,180	234,966		
Operations and support	830,650							830,650		
Sub-advisory	71,213							71,213		
Interest	110,597								110,597	
	2,052,606						805,180	1,136,829	110,597	
Earnings before income taxes	\$ 965,376									

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CHANGES IN PRESENTATION (continued)

Statements of Earnings (continued)

2019

PRIOR PRESENTATION		MANAGEMENT AND ADVISORY FEES	ADMINISTRATION FEES	DISTRIBUTION FEES	NET INVESTMENT INCOME AND OTHER	PROPORTIONATE SHARE OF ASSOCIATES' EARNINGS	COMMISSION EXPENSE	NON-COMMISSION EXPENSE	INTEREST EXPENSE	EARNINGS BEFORE INCOME TAXES
		\$ 2,267,960	\$ 414,457	\$ 368,036	\$ 76,928	\$ 105,225	\$ 1,101,165	\$ 1,054,389	\$ 108,386	\$ 968,666
CURRENT PRESENTATION										
REVENUES										
Wealth management	\$ 2,299,048	1,568,346	316,309	362,290	52,103					
Asset management	792,327	699,614	98,148	5,746				(11,181)		
Dealer compensation	(277,075)						(277,075)			
Net asset management	515,252	699,614	98,148	5,746			(277,075)	(11,181)		
Net investment income and other	24,825				24,825					
Proportionate share of associates' earnings (Note 8)	105,225					105,225				
	<u>2,944,350</u>	2,267,960	414,457	368,036	76,928	105,225	(277,075)	(11,181)		
Expenses										
Advisory and business development	1,066,021						814,263	251,758		
Operations and support	733,045						9,827	723,218		
Sub-advisory	68,232							68,232		
Interest	108,386								108,386	
	<u>1,975,684</u>						824,090	1,043,208	108,386	
Earnings before income taxes	\$ 968,666									

REVENUE RECOGNITION

Wealth management revenue is earned for providing financial planning, investment advisory and related financial services. Revenues from financial advisory fees and investment management and related administration fees are based on the net asset value of investment funds or other assets under advisement and are accrued as services are performed. Distribution revenue associated with insurance and banking products and services are also recognized on an accrual basis while distribution fees derived from investment fund and securities transactions are recognized on a trade date basis.

Asset management revenue related to investment management advisory and administrative services is based on the net asset value of investment funds and other assets under management and is accrued as services are performed.

FINANCIAL INSTRUMENTS

All financial assets are initially recognized at fair value in the Consolidated Balance Sheets and are subsequently classified as measured at FVTPL, fair value through other comprehensive income (FVTOCI) or amortized cost based on the Company's assessment of the business model within which the financial asset is managed and the financial asset's contractual cash flow characteristics.

FINANCIAL INSTRUMENTS (continued)

A financial asset is measured at amortized cost if it is held within a business model of holding financial assets and collecting contractual cash flows and those cash flows are comprised solely of payments of principal and interest. A financial asset is measured at FVTOCI if the financial asset is held within a business model of both collecting contractual cash flows and selling the financial assets or through an irrevocable election for equity instruments that are not held for trading. All other financial assets are measured at FVTPL. A financial asset that would otherwise be measured at amortized cost or FVTOCI can be designated as FVTPL through an irrevocable election if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets can only be reclassified when there is a change to the business model within which they are managed. Such reclassifications are applied on a prospective basis.

Financial liabilities are classified either as measured at amortized cost using the effective interest method or as FVTPL, which are recorded at fair value.

Unrealized gains and losses on financial assets classified as FVTOCI as well as other comprehensive income amounts, including unrealized foreign currency translation gains and losses related to the Company's investment in its associates, are recorded in the Consolidated Statements of Comprehensive Income on a net of tax basis. Accumulated other comprehensive income forms part of Shareholders' equity.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities. Interest income is recorded on an accrual basis in Net investment income and other in the Consolidated Statements of Earnings.

OTHER INVESTMENTS

Other investments, which are recorded on a trade date basis, are classified as either FVTOCI or FVTPL.

The Company has elected to classify certain equity investments that are not held for trading as FVTOCI. Unrealized gains and losses on these FVTOCI investments are recorded in Other comprehensive income and transferred directly to retained earnings when realized without being recorded through profit or loss. Dividends declared are recorded in Net investment income and other in the Consolidated Statements of Earnings.

FVTPL investments are held for trading and are comprised of fixed income and equity investments and investments in proprietary investment funds. Unrealized and realized gains and losses, dividends declared, and interest income on these investments are recorded in Net investment income and other in the Consolidated Statements of Earnings.

LOANS

Loans are classified as either FVTPL or amortized cost, based on the Company's assessment of the business model within which the loan is managed. Revenues from mortgage activities are included in Wealth Management revenues in the Consolidated Statement of Earnings.

Changes in fair value of loans measured at FVTPL are recorded in Wealth management revenue in the Consolidated Statements of Earnings. Loans measured at amortized cost are recorded net of an allowance for expected credit losses. Interest income is accounted for on the accrual basis using the effective interest method for all loans and is recorded in Wealth management revenue in the Consolidated Statements of Earnings.

The Company applies a three-stage impairment approach to measure expected credit losses on loans: 1) On origination, an allowance for 12-month expected credit losses is established, 2) Lifetime expected credit losses are recognized where there is a significant deterioration of credit quality, and 3) A loan is considered credit impaired when there is no longer reasonable assurance of collection.

DERECOGNITION

The Company enters into transactions where it transfers financial assets recognized on its balance sheet. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in Wealth management revenue in the Consolidated Statements of Earnings. The transactions for financial assets that are not derecognized are accounted for as secured financing transactions.

SALES COMMISSIONS

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

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

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

CAPITAL ASSETS

Capital assets are comprised of Property and equipment and Right-of-use assets.

Property and equipment

Buildings, furnishings and equipment are amortized on a straight-line basis over their estimated useful lives, which range from 3 to 17 years for equipment and furnishings and 10 to 50 years for the building and its components. Capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Right-of-use assets

A right-of-use asset representing the Company's property leases is depreciated using the straight-line method from the commencement date to the end of the lease term and is recorded in Advisory and business development and Operations and support expenses.

LEASES

For contracts that contain a lease, the Company recognizes a right-of-use asset and a lease liability. Imputed interest on the lease liability is recorded in Interest expense.

Lease payments included in the measurement of the lease liability comprises fixed payments less any lease incentives receivable, variable payments that depend on an index or a rate, and payments or penalties for terminating the lease, if any. The lease payments are discounted using the Company's incremental borrowing rate, which is applied to portfolios of leases with reasonably similar characteristics.

The Company does not recognize a right-of-use asset or lease liability for leases that, at commencement date, have a lease term of 12 months or less, and leases for which the underlying asset is of low value. The Company recognizes the payments associated with these leases as an expense on a straight-line basis over the term of the lease.

GOODWILL AND INTANGIBLE ASSETS

The Company tests the carrying value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units).

Investment fund management contracts have been assessed to have an indefinite useful life as the contractual right to manage the assets has no fixed term.

Trade names have been assessed to have an indefinite useful life as they contribute to the revenues of the Company's integrated asset management business as a whole and the Company intends to utilize them for the foreseeable future.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Software assets are amortized over a period not exceeding 7 years and distribution and other management contracts are amortized over a period not exceeding 20 years. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

EMPLOYEE BENEFITS

The Company maintains a number of employee benefit plans including defined benefit plans and defined contribution pension plans for eligible employees. These plans are related parties in accordance with IFRS. The Company's defined benefit plans include a funded defined benefit pension plan for eligible employees, unfunded supplementary executive retirement plans (SERP) for certain executive officers, and an unfunded post-employment health care, dental and life insurance plan for eligible retirees.

The defined benefit pension plan provides pensions based on length of service and final average earnings.

The cost of the defined benefit plans is actuarially determined using the projected unit credit method prorated on service based upon management's assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of pension obligations. The Company's accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets. The Company determines the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined using a yield curve of AA corporate debt securities.

If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings.

Current service costs, past service costs and curtailment gains or losses are included in Operations and support expenses.

Remeasurements arising from defined benefit plans represent actuarial gains and losses and the actual return on plan assets, less interest calculated at the discount rate. Remeasurements are recognized immediately through Other comprehensive income (OCI) and are not reclassified to net earnings.

The accrued benefit liability represents the deficit related to defined benefit plans and is included in Other liabilities.

Payments to the defined contribution pension plans are expensed as incurred.

SHARE-BASED PAYMENTS

The Company uses the fair value based method to account for stock options granted to employees. The fair value of stock options is determined on each grant date. Compensation expense is recognized over the period that the stock options vest, with a corresponding increase in Contributed surplus. When stock options are exercised, the proceeds together with the amount recorded in Contributed surplus are added to Share capital.

The Company recognizes a liability for cash settled awards including those granted under the Performance Share Unit, Restricted Share Unit and Deferred Share Unit plans. Compensation expense is recognized over the vesting period, net of related hedges. The liability is remeasured at fair value at each reporting period.

PROVISIONS

A provision is recognized if, as a result of a past event, the Company has a present obligation where a reliable estimate can be made, and it is probable that an outflow of resources will be required to settle the obligation.

INCOME TAXES

The Company uses the liability method in accounting for income taxes whereby deferred income tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases and tax loss carryforwards. Deferred income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates which are anticipated to be in effect when the temporary differences are expected to reverse.

EARNINGS PER SHARE

Basic earnings per share is determined by dividing Net earnings available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share is determined using the same method as basic earnings per share except that the average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury stock method.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are utilized by the Company in the management of equity price and interest rate risks. The Company does not utilize derivative financial instruments for speculative purposes.

The Company formally documents all hedging relationships, as well as its risk management objective and strategy for undertaking various hedging transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to anticipated future transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Derivative financial instruments are recorded at fair value in the Consolidated Balance Sheets.

Derivative financial instruments specifically designated as a hedge and meeting the criteria for hedge effectiveness offset the changes in fair values or cash flows of hedged items. A hedge is designated either as a cash flow hedge or a fair value hedge. A cash flow hedge requires the change in fair value of the derivative, to the extent effective, to be recorded in Other comprehensive income, which is reclassified to the Consolidated Statements of Earnings when the hedged item affects earnings. The change in fair value of the ineffective portion of the derivative in a cash flow hedge is recorded in the Consolidated Statements of Earnings. A fair value hedge requires the change in fair value of the hedging derivative and the change in fair value of the hedged item relating to the hedged risk to both be recorded in the Consolidated Statements of Earnings.

The Company enters into interest rate swaps as part of its mortgage banking and intermediary operations. These swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. Swaps entered into to hedge the costs of funds on certain securitization activities are designated as hedging instruments (Note 21). The effective portion of changes in fair value are initially recorded in Other comprehensive income and subsequently recorded in Wealth management revenue in the Consolidated Statements of Earnings over the term of the associated Obligations to securitization entities. Remaining mortgage related swaps are not designated as hedging instruments and changes in fair value are recorded directly in Wealth management revenue in the Consolidated Statements of Earnings.

The Company also enters into total return swaps and forward agreements to manage its exposure to fluctuations in the total return of its common shares related to deferred compensation arrangements. Total return swap and forward agreements require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these derivatives are not designated as hedging instruments and changes in fair value are recorded in Operations and support expenses in the Consolidated Statements of Earnings.

Derivatives continue to be utilized on a basis consistent with the risk management policies of the Company and are monitored by the Company for effectiveness as economic hedges even if specific hedge accounting requirements are not met.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount is presented on the Consolidated Balance Sheets when the Company has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

FUTURE ACCOUNTING CHANGES

The Company continuously monitors the potential changes proposed by the IASB and analyzes the effect that changes in the standards may have on the Company's operations.

NOTE 3 EXPENSES

	2020	2019
Commissions	\$ 787,684	\$ 824,090
Salaries and employee benefits	556,115	517,796
Restructuring and other	74,460	–
Occupancy	28,608	27,840
Amortization of capital, intangible and other assets	83,498	79,496
Other	340,431	349,844
	1,870,796	1,799,066
Sub-advisory	71,213	68,232
Interest	110,597	108,386
	\$ 2,052,606	\$ 1,975,684

During 2020, the Company incurred restructuring and other charges of \$74.5 million related to the ongoing multi-year transformation initiatives and efforts to enhance our operational effectiveness and also from the acquisition of GLC Asset Management (GLC) and other changes to our investment management teams. As a result of these initiatives, the Company is recording costs relating to restructuring and downsizing certain related party sharing services activities as well as impairment of redundant internally generated software assets.

NOTE 4 OTHER INVESTMENTS

	2020		2019	
	COST	FAIR VALUE	COST	FAIR VALUE
Fair value through other comprehensive income (FVTOCI)				
Corporate investments	\$ 251,417	\$ 593,273	\$ 244,989	\$ 301,196
Fair value through profit or loss (FVTPL)				
Equity securities	1,499	1,513	1,575	1,759
Proprietary investment funds	35,254	37,514	51,304	54,407
	36,753	39,027	52,879	56,166
	\$ 288,170	\$ 632,300	\$ 297,868	\$ 357,362

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Corporate investments is primarily comprised of the Company's investments in Wealthsimple Financial Corp. (Wealthsimple) and Portag3 Ventures LP and Portag3 Ventures II LP (Portag3).

In 2020, the Company invested \$4.2 million related to Portag3 (2019 – Wealthsimple \$51.9 million and Portag3 \$14.8 million).

The total fair value of Corporate investments of \$593.3 million is presented net of certain costs incurred within the limited partnership structures holding the underlying investments.

INVESTMENT IN WEALTHSIMPLE

Wealthsimple Financial Corp. (Wealthsimple) is an online investment manager that provides financial investment guidance. As at December 31, 2020, the Company had invested a total of \$186.9 million in Wealthsimple through a limited partnership controlled by Power Financial Corporation, a subsidiary of Power Corporation of Canada. The investment is classified at Fair Value Through Other Comprehensive Income.

On October 14, 2020, Wealthsimple announced a \$114 million equity fundraising led by TCV, a growth equity investor focused on technology, along with Greylock, Meritech, Two Sigma Ventures and existing investor Allianz X. The purchase price associated with this fundraising values the common equity of Wealthsimple at \$1.5 billion (\$1.4 billion pre-money valuation).

IGM Financial Inc. holds, directly and indirectly, a 36% interest in Wealthsimple (2019 – 42%). As a result of this valuation, the fair value of the Company's investment increased by \$298 million and is recorded at \$550 million at December 31, 2020.

NOTE 4 OTHER INVESTMENTS *(continued)*

INVESTMENT IN PORTAG3

Portag3 is an early-stage investment fund dedicated to backing innovating financial services companies. Portag3 is controlled by the Company's parent, Power Financial Corporation.

FAIR VALUE THROUGH PROFIT OR LOSS

Proprietary investment funds

The Company manages and provides services and earns management and administration fees, in respect of investment funds that are not recognized in the Consolidated Balance Sheets. As at December 31, 2020, there were \$162.3 billion in investment fund assets under management (2019 – \$161.8 billion). The Company's investments in proprietary investment funds are classified on the Company's Consolidated Balance Sheets as fair value through profit or loss. These investments are generally made in the process of launching a new fund and are sold as third-party investors subscribe. The Company's maximum exposure to loss is limited to its direct investment in the proprietary investment funds.

Certain investment funds are consolidated where the Company has made the assessment that it controls the investment fund. As at December 31, 2020, the underlying investments related to these consolidated investment funds primarily consisted of cash and short-term investments of \$7.5 million (2019 – \$7.1 million), equity securities of \$10.9 million (2019 – \$21.8 million) and fixed income securities of \$5.8 million (2019 – \$6.0 million). The underlying securities of these funds are classified as FVTPL and recognized at fair value.

NOTE 5 LOANS

	CONTRACTUAL MATURITY			2020 TOTAL	2019 TOTAL
	1 YEAR OR LESS	1 – 5 YEARS	OVER 5 YEARS		
Amortized cost					
Residential mortgages	\$ 1,500,141	\$ 4,820,230	\$ 8,971	\$ 6,329,342	\$ 7,198,718
Less: Allowance for expected credit losses				778	675
				6,328,564	7,198,043
Fair value through profit or loss				3,291	–
				\$ 6,331,855	\$ 7,198,043
The change in the allowance for expected credit losses is as follows:					
Balance, beginning of year				\$ 675	\$ 801
Write-offs, net of recoveries				(562)	(863)
Expected credit losses				665	737
Balance, end of year				\$ 778	\$ 675

Total credit impaired loans as at December 31, 2020 were \$4,807 (2019 – \$2,381).

In 2020, the Company worked with clients that were financially impacted by COVID-19 to defer mortgage payments for up to six months. This program expired for new applicants on September 30, 2020. As at December 31, 2020, there were no mortgages in the deferral program.

At December 31, 2020, the Company's allowance for expected credit losses was \$778 compared to \$675 at December 31, 2019.

Total interest income on loans was \$191.2 million (2019 – \$218.3 million). Total interest expense on obligations to securitization entities, related to securitized loans, was \$148.5 million (2019 – \$171.9 million). Gains realized on the sale of residential mortgages totalled \$9.8 million (2019 – \$3.2 million). Fair value adjustments related to mortgage banking operations totalled negative \$5.1 million (2019 – negative \$4.3 million). These amounts were included in Wealth management revenue. Wealth management revenue also includes other mortgage banking related items including portfolio insurance, issue costs, and other items.

NOTE 6 SECURITIZATIONS

The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as the Company retains prepayment risk and certain elements of credit risk. Accordingly, the Company has retained these mortgages on its balance sheets and has recorded offsetting liabilities for the net proceeds received as Obligations to securitization entities which are recorded at amortized cost.

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap transaction whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, and the hedging swap used to manage exposure to changes in variable rate investment returns, are recorded as derivatives with a negative fair value of \$1.2 million at December 31, 2020 (2019 – negative \$5.8 million).

The Government of Canada introduced measures to support Canadians through the COVID-19 crisis where mortgage payments can be deferred for up to six months and repaid over the life of the mortgage. The program expired for new applicants on September 30, 2020. Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, the Company has provided cash reserves for credit enhancement which are recorded at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to the Company's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
2020			
Carrying value			
NHA MBS and CMB Program	\$ 3,216,158	\$ 3,307,428	\$ (91,270)
Bank sponsored ABCP	2,767,743	2,866,458	(98,715)
Total	\$ 5,983,901	\$ 6,173,886	\$ (189,985)
Fair value	\$ 6,186,410	\$ 6,345,189	\$ (158,779)
2019			
Carrying value			
NHA MBS and CMB Program	\$ 3,890,955	\$ 3,938,732	\$ (47,777)
Bank sponsored ABCP	2,938,910	2,974,904	(35,994)
Total	\$ 6,829,865	\$ 6,913,636	\$ (83,771)
Fair value	\$ 6,907,742	\$ 6,996,953	\$ (89,211)

The carrying value of Obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

NOTE 7 OTHER ASSETS

	2020	2019
Deferred and prepaid expenses	\$ 48,763	\$ 44,673
Other	1,019	1,170
	\$ 49,782	\$ 45,843

Total other assets of \$24.2 million as at December 31, 2020 (2019 – \$19.1 million) are expected to be realized within one year.

NOTE 8 INVESTMENT IN ASSOCIATES

	LIFECO	CHINA AMC	PERSONAL CAPITAL	NORTHLEAF	TOTAL
2020					
Balance, beginning of year	\$ 896,651	\$ 662,694	\$ 194,537	\$ –	\$ 1,753,882
Investment	–	–	–	247,508	247,508
Dividends	(65,415)	(13,686)	–	–	(79,101)
Proportionate share of:					
Earnings (losses)	109,148	41,531	(4,640)	990 ⁽¹⁾	147,029
Associate's adjustments	3,400	–	–	–	3,400
Other comprehensive income (loss) and other adjustments	18,604	29,743	8,817	–	57,164
Disposition	–	–	(198,714)	–	(198,714)
Balance, end of year	\$ 962,388	\$ 720,282	\$ –	\$ 248,498	\$ 1,931,168
2019					
Balance, beginning of year	\$ 967,829	\$ 683,475	\$ –	\$ –	\$ 1,651,304
Transfer from corporate investments (FVTOCI)	–	–	216,952	–	216,952
Proceeds from substantial issuer bid	(80,408)	–	–	–	(80,408)
Dividends received	(62,673)	(10,301)	–	–	(72,974)
Proportionate share of:					
Earnings (losses)	109,088	30,119	(16,782)	–	122,425
Associate's one-time charges	(17,200)	–	–	–	(17,200)
Other comprehensive income (loss) and other adjustments	(19,985)	(40,599)	(5,633)	–	(66,217)
Balance, end of year	\$ 896,651	\$ 662,694	\$ 194,537	\$ –	\$ 1,753,882

(1) The Company's proportionate share of Northleaf's earnings, net of Non-controlling interest, was \$0.8 million.

The Company uses the equity method to account for its investments in Great-West Lifeco Inc., China Asset Management Co., Ltd. and Northleaf Capital Group Ltd. as it exercises significant influence. The equity method was used up to June 29, 2020 to account for the Company's 24.8% equity interest in Personal Capital Corporation (Personal Capital), as it exercised significant influence.

GREAT-WEST LIFECO INC. (LIFECO)

Lifeco is a publicly listed company that is incorporated and domiciled in Canada and is controlled by Power Corporation of Canada. Lifeco is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada, the United States, Europe and Asia.

At December 31, 2020, the Company held 37,337,133 (2019 – 37,337,133) shares of Lifeco, which represented an equity interest of 4.0% (2019 – 4.0%). Significant influence arises from several factors, including but not limited to the following: common control of Lifeco by Power Corporation of Canada, directors common to the boards of the Company and Lifeco, certain shared strategic alliances and significant intercompany transactions that influence the financial and operating policies of both companies. The Company's proportionate share of Lifeco's earnings is recorded in the Consolidated Statements of Earnings.

In December 2020, Lifeco recorded a gain in relation to the revaluation of a deferred tax asset less certain restructuring and transaction costs. The Company's after-tax proportionate share of these adjustments was \$3.4 million.

In April 2019, the Company participated on a proportionate basis in the Lifeco substantial issuer bid by selling 2,400,255 of its shares in Lifeco for proceeds of \$80.4 million.

In June 2019, Lifeco recorded a one-time loss in relation to the sale of substantially all of its United States individual life insurance and annuity business. In December 2019, Lifeco recorded one-time charges in relation to the revaluation of a deferred tax asset, restructuring costs and the net gain on the Scottish Friendly transaction. The Company's after-tax proportionate share of these charges was \$17.2 million.

The fair value of the Company's investment in Lifeco totalled \$1,133.2 million at December 31, 2020 (2019 – \$1,241.8 million). The Company has elected to apply the exemption in IFRS 4 *Insurance Contracts* to retain Lifeco's relevant accounting policies related to Lifeco's deferral of the adoption of IFRS 9 *Financial Instruments*.

NOTE 8 INVESTMENT IN ASSOCIATES (continued)

GREAT-WEST LIFECO INC. (LIFECO) (continued)

Lifeco directly owned 9,200,000 shares of the Company at December 31, 2020 (2019 – 9,200,000).

Lifeco's financial information as at December 31, 2020 can be obtained in its publicly available information.

CHINA ASSET MANAGEMENT CO., LTD. (CHINA AMC)

China AMC is an asset management company established in Beijing, China and is controlled by CITIC Securities Company Limited.

As at December 31, 2020, the Company held a 13.9% ownership interest in China AMC (2019 – 13.9%). Significant influence arises from board representation, participating in the policy making process, shared strategic initiatives including joint product launches and collaboration between management and investment teams.

The following table sets forth certain summary financial information from China AMC:

AS AT DECEMBER 31 (millions)	2020		2019	
	CANADIAN DOLLARS	CHINESE YUAN	CANADIAN DOLLARS	CHINESE YUAN
Total assets	2,672	13,695	2,171	11,645
Total liabilities	720	3,688	504	2,701
FOR THE YEAR ENDED DECEMBER 31				
Revenue	1,078	5,539	763	3,977
Net earnings available to common shareholders	311	1,598	230	1,201
Total comprehensive income	300	1,542	234	1,219

NORTHLEAF CAPITAL GROUP LTD. (NORTHLEAF)

On October 28, 2020, the Company's subsidiary, Mackenzie, together with Lifeco, acquired a non-controlling interest in Northleaf Capital Group Ltd. (Northleaf), a global private equity, private credit and infrastructure fund manager headquartered in Toronto.

The transaction was executed through an acquisition vehicle 80% owned by Mackenzie and 20% owned by Lifeco for cash consideration of \$241.0 million and up to an additional \$245.0 million in consideration at the end of five years subject to the business achieving exceptional growth in certain performance measures over the period. Any additional consideration will be recognized as expense over the five year period based on the fair value of the expected payment, which is revalued at each reporting period date.

The acquisition vehicle acquired a 49.9% non-controlling voting interest and a 70% economic interest in Northleaf. Mackenzie and Lifeco have an obligation and right to purchase the remaining economic and voting interest in Northleaf commencing in approximately five years and extending into future periods. The equity method is used to account for the acquisition vehicle's 70% economic interest as it exercises significant influence. Significant influence arises from board representation, participation in the policy making process and shared strategic initiatives.

The Company controls the acquisition vehicle and therefore recognizes the full 70% economic interest in Northleaf and recognizes Non-controlling interest (NCI) related to Lifeco's net interest in Northleaf of 14%. Net of NCI, IGM's investment at December 31, 2020 was \$199.6 million, comprised of \$192.6 million in cash consideration, \$6.2 million in capitalized transaction costs and proportionate share of 2020 earnings of \$0.8 million.

The following table sets forth certain summary financial information from Northleaf:

AS AT DECEMBER 31 (millions)	2020
Total assets	115.9
Total liabilities	98.5
FOR THE THREE MONTHS ENDED DECEMBER 31 ⁽¹⁾	
Revenue	21.7
Net earnings available to common shareholders	3.1
Total comprehensive income	3.1

(1) Q4 2020 earnings presented; however, the Company's proportionate share of Northleaf's earnings was effective October 28, 2020.

NOTE 8 INVESTMENT IN ASSOCIATES (continued)

PERSONAL CAPITAL CORPORATION (PERSONAL CAPITAL)

During the third quarter of 2020, the Company sold its equity interest in Personal Capital to a subsidiary of Lifeco, Empower Retirement, for proceeds of \$232.8 million (USD \$176.2 million) and up to an additional USD \$24.6 million in consideration subject to Personal Capital achieving certain target growth objectives.

As a result of the sale, the Company has derecognized its investment in Personal Capital and recorded an accounting gain of \$37.2 million (\$31.4 million net of tax) in Net investment income and other.

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

In January 2019, the Company invested an additional amount of \$66.8 million (USD \$50.0 million) in Personal Capital which increased its voting interest to 22.7% and, combined with its board representation, resulted in the Company exercising significant influence.

NOTE 9 CAPITAL ASSETS

	FURNITURE AND EQUIPMENT	BUILDING AND COMPONENTS	RIGHT-OF-USE ASSETS	TOTAL
2020				
Cost	\$ 357,351	\$ 68,009	\$ 227,872	\$ 653,232
Less: accumulated amortization	(258,315)	(16,598)	(48,629)	(323,542)
	\$ 99,036	\$ 51,411	\$ 179,243	\$ 329,690
Changes in capital assets:				
Balance, beginning of year	\$ 84,299	\$ 51,801	\$ 80,856	\$ 216,956
Additions	37,799	1,192	123,529	162,520
Disposals	(3,653)	–	–	(3,653)
Amortization	(19,409)	(1,582)	(25,142)	(46,133)
Balance, end of year	\$ 99,036	\$ 51,411	\$ 179,243	\$ 329,690
2019				
Cost	\$ 321,108	\$ 66,817	\$ 104,343	\$ 492,268
Less: accumulated amortization	(236,809)	(15,016)	(23,487)	(275,312)
	\$ 84,299	\$ 51,801	\$ 80,856	\$ 216,956
Changes in capital assets:				
Balance, beginning of year	\$ 88,185	\$ 50,462	\$ –	\$ 138,647
Adoption of IFRS 16	–	–	96,065	96,065
Additions	16,679	2,841	8,278	27,798
Disposals	(893)	–	–	(893)
Amortization	(19,672)	(1,502)	(23,487)	(44,661)
Balance, end of year	\$ 84,299	\$ 51,801	\$ 80,856	\$ 216,956

NOTE 10 CAPITALIZED SALES COMMISSIONS

	2020	2019
Cost	\$ 310,127	\$ 192,504
Less: accumulated amortization	(79,042)	(42,638)
	\$ 231,085	\$ 149,866
Changes in capitalized sales commissions		
Balance, beginning of year	\$ 149,866	\$ 105,044
Changes due to:		
Sales of investment funds	117,652	67,209
Amortization	(36,433)	(22,387)
	81,219	44,822
Balance, end of year	\$ 231,085	\$ 149,866

NOTE 11 GOODWILL AND INTANGIBLE ASSETS

	FINITE LIFE		INDEFINITE LIFE			
	SOFTWARE	DISTRIBUTION AND OTHER MANAGEMENT CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL INTANGIBLE ASSETS	GOODWILL
2020						
Cost	\$ 293,412	\$ 228,167	\$ 740,559	\$ 285,177	\$ 1,547,315	\$ 2,803,075
Less: accumulated amortization	(137,489)	(88,236)	–	–	(225,725)	–
	\$ 155,923	\$ 139,931	\$ 740,559	\$ 285,177	\$ 1,321,590	\$ 2,803,075
Changes in goodwill and intangible assets:						
Balance, beginning of year	\$ 138,499	\$ 65,892	\$ 740,559	\$ 285,177	\$ 1,230,127	\$ 2,660,267
Additions ⁽¹⁾	43,606	81,950	–	–	125,556	142,808
Disposals	(1,421)	(490)	–	–	(1,911)	–
Amortization	(24,761)	(7,421)	–	–	(32,182)	–
Balance, end of year	\$ 155,923	\$ 139,931	\$ 740,559	\$ 285,177	\$ 1,321,590	\$ 2,803,075
2019						
Cost	\$ 256,365	\$ 147,248	\$ 740,559	\$ 285,177	\$ 1,429,349	\$ 2,660,267
Less: accumulated amortization	(117,866)	(81,356)	–	–	(199,222)	–
	\$ 138,499	\$ 65,892	\$ 740,559	\$ 285,177	\$ 1,230,127	\$ 2,660,267
Changes in goodwill and intangible assets:						
Balance, beginning of year	\$ 116,697	\$ 48,635	\$ 740,559	\$ 285,177	\$ 1,191,068	\$ 2,660,267
Additions	44,421	25,457	–	–	69,878	–
Disposals	–	(1,726)	–	–	(1,726)	–
Amortization	(22,619)	(6,474)	–	–	(29,093)	–
Balance, end of year	\$ 138,499	\$ 65,892	\$ 740,559	\$ 285,177	\$ 1,230,127	\$ 2,660,267

(1) The Company completed its acquisition of GLC on December 31, 2020 and Greenchip on December 22, 2020 (Note 29)

NOTE 11 GOODWILL AND INTANGIBLE ASSETS (continued)

The goodwill and indefinite life intangible assets consisting of investment fund management contracts and trade names are allocated to each cash generating unit (CGU) as summarized in the following table:

	2020		2019	
	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS	GOODWILL	INDEFINITE LIFE INTANGIBLE ASSETS
Wealth Management	\$ 1,491,687	\$ 23,055	\$ 1,491,687	\$ 23,055
Asset Management	1,311,388	1,002,681	1,168,580	1,002,681
Total	\$ 2,803,075	\$ 1,025,736	\$ 2,660,267	\$ 1,025,736

The Company tests whether goodwill and indefinite life intangible assets are impaired by assessing the carrying amounts with the recoverable amounts. The recoverable amount of the Company's CGUs is based on the best available evidence of fair value less costs of disposal.

In assessing the recoverable amounts, valuation approaches are used that may include discounted cash flow analysis and application of capitalization multiples to financial and operating metrics based upon precedent acquisition transactions and trading comparables. Assumptions and estimates employed in discounted cash flows include future changes in assets under management resulting from net sales and investment returns, pricing and profit margin changes and discount rates, which represent level 3 fair value inputs. Valuation multiples may include price-to-earnings or other conventionally used measures for investment managers or other financial service providers (multiples of value to assets under management, revenues, or other measures of profitability). This assessment may give regard to a variety of relevant considerations, including expected growth, risk and capital market conditions, among other factors. The valuation multiples used in assessing fair value represent Level 2 fair value inputs.

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

NOTE 12 DEPOSITS AND CERTIFICATES

Deposits and certificates are classified as other financial liabilities measured at amortized cost.

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents, client funds on deposit and loans amounting to \$1,104.9 million (2019 – \$584.3 million) related to deposits and certificates.

	TERM TO MATURITY				2020	2019
	DEMAND	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL	TOTAL
Deposits	\$ 1,099,365	\$ 1,655	\$ 1,938	\$ 169	\$ 1,103,127	\$ 582,382
Certificates	–	410	570	782	1,762	1,949
	\$ 1,099,365	\$ 2,065	\$ 2,508	\$ 951	\$ 1,104,889	\$ 584,331

NOTE 13 OTHER LIABILITIES

	2020	2019
Dividends payable	\$ 134,048	\$ 134,040
Interest payable	27,500	30,127
Accrued benefit liabilities (Note 14)	250,079	207,441
Provisions	77,495	20,513
Other	47,019	49,781
	\$ 536,141	\$ 441,902

NOTE 13 OTHER LIABILITIES *(continued)*

The Company establishes restructuring provisions related to business acquisitions, divestitures and other items, as well as other provisions in the normal course of its operations. Changes in provisions during 2020 consisted of additional estimates of \$77.8 million (2019 – \$2.2 million), provision reversals of \$2.2 million (2019 – \$3.3 million) and payments of \$18.6 million (2019 – \$29.2 million).

Total other liabilities of \$276.0 million as at December 31, 2020 (2019 – \$221.5 million) are expected to be settled within one year.

NOTE 14 EMPLOYEE BENEFITS

DEFINED BENEFIT PLANS

The Company maintains a number of employee pension and post-employment benefit plans. These plans include a funded registered defined benefit pension plan for all eligible employees, unfunded supplementary executive retirement plans (SERPs) for certain executive officers, and an unfunded post-employment health care, dental and life insurance plan for eligible retirees.

Effective July 1, 2012, the defined benefit pension plan was closed to new members. For all eligible employees hired after July 1, 2012, the Company has a registered defined contribution pension plan.

The defined benefit pension plan is a separate trust that is legally separated from the Company. The defined benefit pension plan is registered under the Pension Benefits Act of Manitoba (Act) and the Income Tax Act (ITA). As required by the Act, the defined benefit pension plan is governed by a pension committee which includes current and retired employees. The Pension Committee has certain responsibilities as described in the Act but may delegate certain activities to the Company. The ITA governs the employer's ability to make contributions and also has parameters that the plan must meet with respect to investments in foreign property.

The defined benefit pension plan provides lifetime pension benefits to all eligible employees based on length of service and final average earnings subject to limits established by the ITA. Death benefits are available on the death of an active member or a retired member.

Employees who are not senior officers are required to make annual contributions based on a percentage of salaries which are subject to a maximum amount.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2017, was completed in May 2018. The valuation determines the plan surplus or deficit on both a solvency and going concern basis. The solvency basis determines the relationship between the plan assets and its liabilities assuming that the plan is wound up and settled on the valuation date. A going concern valuation compares the relationship between the plan assets and the present value of the expected future benefit cash flows, assuming the plan will be maintained indefinitely. Based on the actuarial valuation, the registered pension plan had a solvency deficit of \$47.2 million compared to \$82.7 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2016. The decrease in the solvency deficit resulted primarily from higher assets due to contribution and investment returns, and is required to be funded over five years. The registered pension plan had a going concern surplus of \$46.1 million compared to \$24.4 million in the previous valuation. The next required actuarial valuation will be based on a measurement date of December 31, 2020. During 2020, the Company made contributions of \$25.6 million (2019 – \$26.4 million). The Manitoba Government announced that they will temporarily waive certain contributions businesses are required to make to their defined benefit pension plans including solvency funding payments for the 13 months from December 2020 to December 2021. IGM has elected this special payment moratorium and as a result, the Company expects to only make current service cost contributions of approximately \$14.1 million in 2021. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

The SERPs are non-registered, non-contributory defined benefit plans which provide supplementary benefits to certain retired executives.

The other post-employment benefit plan is a non-contributory plan and provides eligible employees a reimbursement of medical costs or a fixed amount per year to cover medical costs during retirement.

The SERPs and other post-employment benefit plans are managed by the Company with oversight from the Board of Directors.

NOTE 14 EMPLOYEE BENEFITS (continued)

DEFINED BENEFIT PLANS (continued)

The defined benefit plans expose the Company to actuarial risks such as mortality risk which represents life expectancy and impacts the calculation of the obligations; interest rate risk which impacts the discount rate used to calculate the obligations and the actual return on plan assets; salary risk as estimated salary increases are used in the calculation of the obligations; and investment risk as the nature of the investments impact the actual return on the plan assets. The risks are managed by regular monitoring of the plans, applicable regulations and other factors that could impact the Company's expenses and cash flows.

Plan assets, benefit obligations and funded status:

	2020			2019		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST- EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST- EMPLOYMENT BENEFITS
Fair value of plan assets						
Balance, beginning of year	\$ 466,547	\$ -	\$ -	\$ 407,428	\$ -	\$ -
Employee contributions	1,979	-	-	2,316	-	-
Employer contributions	25,468	-	-	26,368	-	-
Benefits paid	(27,792)	-	-	(32,014)	-	-
Interest income	14,935	-	-	16,065	-	-
Additions	11,200	-	-	-	-	-
Remeasurements:						
Return on plan assets	24,608	-	-	46,384	-	-
Balance, end of year	516,945	-	-	466,547	-	-
Accrued benefit obligation						
Balance, beginning of year	565,606	69,236	39,147	496,715	62,084	37,742
Benefits paid	(27,792)	(3,267)	(1,942)	(32,014)	(3,308)	(2,266)
Current service cost	20,728	1,639	587	18,540	1,462	539
Past service costs	-	(1,588)	-	-	-	-
Employee contributions	1,979	-	-	2,316	-	-
Interest expense	17,688	2,072	1,156	19,048	2,265	1,337
Additions	14,700	-	-	-	-	-
Remeasurements:						
Actuarial losses (gains)						
Demographic assumption	-	-	830	-	-	-
Experience adjustments	(33)	1,345	(535)	(970)	1,934	(648)
Financial assumptions	57,188	5,388	2,892	61,971	4,798	2,443
Balance, end of year	650,064	74,825	42,135	565,606	69,235	39,147
Accrued benefit liability	\$ 133,119	\$ 74,825	\$ 42,135	\$ 99,059	\$ 69,235	\$ 39,147

Significant actuarial assumptions used to calculate the defined benefit obligation:

	2020			2019		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST- EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST- EMPLOYMENT BENEFITS
Discount rate	2.70%	1.85%-2.50%	2.35%	3.20%	2.95%-3.10%	3.05%
Rate of compensation increase	3.75%	3.75%	N/A	3.90%	3.75%	N/A
Health care cost trend rate ⁽¹⁾	N/A	N/A	5.60%	N/A	N/A	4.00%
Mortality rates at age 65 for current pensioners	23.0 years	23.0 years	23.0 years	23.6 years	23.6 years	23.6 years

(1) Trending to 4.00% in 2040 and remaining at that rate thereafter.

The weighted average duration of the pension plan's defined benefit obligation at the end of the reporting period is 19.3 years (2019 – 19.1 years).

NOTE 14 EMPLOYEE BENEFITS (continued)

DEFINED BENEFIT PLANS (continued)

Benefit expense:

	2020			2019		
	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERPS	OTHER POST-EMPLOYMENT BENEFITS
Current service cost	\$ 20,728	\$ 1,639	\$ 587	\$ 18,540	\$ 1,462	\$ 539
Past service costs	–	(1,588)	–	–	–	–
Net interest cost	2,753	2,072	1,156	2,983	2,265	1,337
	\$ 23,481	\$ 2,123	\$ 1,743	\$ 21,523	\$ 3,727	\$ 1,876

Sensitivity analysis:

The calculation of the accrued benefit liability and the related benefit expense are sensitive to the significant actuarial assumptions. The following table presents the sensitivity analysis:

	2020		2019	
	INCREASE (DECREASE) IN LIABILITY	INCREASE (DECREASE) IN EXPENSE	INCREASE (DECREASE) IN LIABILITY	INCREASE (DECREASE) IN EXPENSE
Defined benefit pension plan				
Discount rate (+ / – 0.25%)				
Increase	\$ (29,334)	\$ (2,081)	\$ (25,523)	\$ (1,782)
Decrease	31,391	2,110	27,313	1,815
Rate of compensation (+ / – 0.25%)				
Increase	11,121	1,075	9,676	812
Decrease	(10,981)	(1,057)	(9,555)	(806)
Mortality				
Increase 1 year	14,339	849	12,476	686
SERPs				
Discount rate (+ / – 0.25%)				
Increase	(1,922)	87	(1,825)	52
Decrease	2,001	(93)	1,908	(56)
Rate of compensation (+ / – 0.25%)				
Increase	41	21	79	23
Decrease	(42)	(15)	(78)	(22)
Mortality				
Increase 1 year	1,645	45	1,681	58
Other post-employment benefits				
Discount rate (+ / – 0.25%)				
Increase	(1,056)	52	(982)	43
Decrease	1,106	(55)	1,028	(46)
Health care cost trend rates (+ / – 1.00%)				
Increase	1,476	35	1,372	39
Decrease	(1,273)	(30)	(1,183)	(35)
Mortality				
Increase 1 year	1,270	42	1,180	44

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in certain assumptions may be correlated.

Asset allocation of defined benefit pension plan by asset category:

	2020	2019
Equity securities	60.8 %	59.2 %
Fixed income securities	29.6	30.3
Alternative strategies	8.6	9.4
Cash and cash equivalents	1.0	1.1
	100.0 %	100.0 %

NOTE 14 EMPLOYEE BENEFITS (continued)

DEFINED BENEFIT PLANS (continued)

The defined benefit pension plan adheres to its Statement of Investment Policies and Procedures which includes investment objectives, asset allocation guidelines and investment limits by asset class. The defined benefit pension plan assets are invested in proprietary investment funds with the exception of cash on deposit with Schedule I Canadian chartered banks.

DEFINED CONTRIBUTION PENSION PLANS

The Company maintains a number of defined contribution pension plans for eligible employees. The total expense recorded in Advisory and business development and Operations and support expenses was \$6.2 million (2019 – \$5.5 million).

GROUP RETIREMENT SAVINGS PLAN (RSP)

The Company maintains a group RSP for eligible employees. The Company's contributions are recorded in Advisory and business development and Operations and support expenses as paid and totalled \$7.6 million (2019 – \$6.9 million).

NOTE 15 INCOME TAXES

Income tax expense:

	2020	2019
Income taxes recognized in net earnings		
Current taxes		
Tax on current year's earnings	\$ 170,441	\$ 200,736
Adjustments in respect of prior years	(2,003)	513
	168,438	201,249
Deferred taxes	32,332	18,470
	\$ 200,770	\$ 219,719

Effective income tax rate:

	2020	2019
Income taxes at Canadian federal and provincial statutory rates	26.68 %	26.77 %
Effect of:		
Proportionate share of associates' earnings (Note 8)	(3.71)	(3.31)
Proportionate share of associate's adjustments (Note 8)	(0.09)	0.48
Tax loss consolidation (Note 26)	(1.15)	(1.41)
Disposition of assets and other acquisition costs	(0.82)	–
Other items	(0.11)	0.15
Effective income tax rate	20.80 %	22.68 %

NOTE 15 INCOME TAXES (continued)

DEFERRED INCOME TAXES

Composition and changes in net deferred taxes are as follows:

	ACCRUED BENEFIT LIABILITIES	LOSS CARRYFORWARDS	CAPITALIZED SALES COMMISSIONS	INTANGIBLE ASSETS	OTHER INVESTMENTS	OTHER	TOTAL
FOR THE YEAR ENDED DECEMBER 31, 2020							
Balance, beginning of year	\$ 55,994	\$ 33,700	\$ (40,006)	\$ (268,734)	\$ (8,104)	\$ (1,382)	\$ (228,532)
Recognized in statements of:							
Earnings	(933)	(6,096)	(21,573)	(4,485)	708	47	(32,332)
Comprehensive income	11,461	—	—	—	(38,565)	(1,900)	(29,004)
Equity	—	—	—	—	—	—	—
Business acquisitions	945	—	—	(15,010)	—	488	(13,577)
Foreign exchange rate charges and other	—	—	—	—	—	(10)	(10)
Balance, end of year	\$ 67,467	\$ 27,604	\$ (61,579)	\$ (288,229)	\$ (45,961)	\$ (2,757)	\$ (303,455)
FOR THE YEAR ENDED DECEMBER 31, 2019							
Balance, beginning of year	\$ 51,025	\$ 33,165	\$ (28,254)	\$ (265,343)	\$ (7,714)	\$ (2,991)	\$ (220,112)
Recognized in statements of:							
Earnings	(1,274)	535	(11,752)	(3,391)	(2,091)	(497)	(18,470)
Comprehensive income	6,243	—	—	—	1,701	3,448	11,392
Equity	—	—	—	—	—	(1,341)	(1,341)
Business acquisitions	—	—	—	—	—	—	—
Foreign exchange rate charges and other	—	—	—	—	—	(1)	(1)
Balance, end of year	\$ 55,994	\$ 33,700	\$ (40,006)	\$ (268,734)	\$ (8,104)	\$ (1,382)	\$ (228,532)

Deferred income tax assets and liabilities are presented on the Consolidated Balance Sheets as follows:

	2020	2019
Deferred income tax assets	\$ 84,624	\$ 76,517
Deferred income tax liabilities	388,079	305,049
	\$ 303,455	\$ 228,532

As at December 31, 2020, the Company had non-capital losses of \$12.2 million (2019 – \$10.0 million) available to reduce future taxable income, the benefit of which had not been recognized. \$11.4 million of the losses can be carried forward indefinitely and the remainder expire on December 31, 2037.

NOTE 16 LONG-TERM DEBT

MATURITY	RATE	2020	2019
January 26, 2027	3.44 %	400,000	400,000
December 13, 2027	6.65 %	125,000	125,000
May 9, 2031	7.45 %	150,000	150,000
December 31, 2032	7.00 %	175,000	175,000
March 7, 2033	7.11 %	150,000	150,000
December 10, 2040	6.00 %	200,000	200,000
January 25, 2047	4.56 %	200,000	200,000
December 9, 2047	4.115 %	250,000	250,000
July 13, 2048	4.174 %	200,000	200,000
March 21, 2050	4.206 %	250,000	250,000
		\$ 2,100,000	\$ 2,100,000

Long-term debt consists of unsecured debentures which are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon yields at the time of redemption.

Long-term debt is classified as other financial liabilities and is recorded at amortized cost.

Interest expense relating to long-term debt was \$106.7 million (2019 – \$104.3 million).

On March 20, 2019, the Company issued \$250.0 million 4.206% debentures maturing March 21, 2050. The net proceeds were used by the Company to fund the redemption of \$150.0 million of its issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B and for general corporate purposes. The Company redeemed the Series B Preferred Shares on April 30, 2019.

NOTE 17 SHARE CAPITAL

AUTHORIZED

Unlimited number of:

- First preferred shares, issuable in series
- Second preferred shares, issuable in series
- Class 1 non-voting shares
- Common shares, no par value

ISSUED AND OUTSTANDING

	2020		2019	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Common shares:				
Balance, beginning of year	238,294,090	\$ 1,597,860	240,885,317	\$ 1,611,263
Issued under Stock Option Plan (Note 19)	14,194	521	171,561	5,111
Purchased for cancellation	–	–	(2,762,788)	(18,514)
Balance, end of year	238,308,284	\$ 1,598,381	238,294,090	\$ 1,597,860

The Company redeemed its First preferred shares, Series B for \$150.0 million on April 30, 2019.

NORMAL COURSE ISSUER BID

The Company commenced a normal course issuer bid on March 26, 2019 which was effective until March 25, 2020. Pursuant to this bid, the Company was authorized to purchase up to 4.0 million or 1.7% of its common shares outstanding as at March 14, 2019.

There were no common shares purchased in 2020. In 2019, there were 2,762,788 shares purchased at a cost of \$100.0 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

NOTE 18 CAPITAL MANAGEMENT

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt and common shareholders' equity. The Company regularly assesses its capital management practices in response to changing economic conditions.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

The total outstanding long-term debt was \$2,100.0 million at December 31, 2020, unchanged from December 31, 2019. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants.

Other activities in 2020 included the declaration of common share dividends of \$536.2 million or \$2.25 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

NOTE 19 SHARE-BASED PAYMENTS

STOCK OPTION PLAN

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees at prices not less than the weighted average trading price per common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. The options are subject to time vesting conditions set out at the grant date. Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date. At December 31, 2020, 20,401,157 (2019 – 20,415,351) common shares were reserved for issuance under the Plan.

During 2020, the Company granted 2,104,365 options to employees (2019 – 1,511,540). The weighted-average fair value of options granted during the year ended December 31, 2020 has been estimated at \$1.43 per option (2019 – \$1.82) using the Black-Scholes option pricing model. The weighted-average closing share price at the grant dates was \$35.05 (2019 – \$34.35). The assumptions used in these valuation models include:

	2020	2019
Exercise price	\$ 36.82	\$ 34.34
Risk-free interest rate	1.11%	2.07%
Expected option life	7 years	7 years
Expected volatility	18.62%	18.00%
Expected dividend yield	6.45%	6.55%

Expected volatility has been estimated based on the historic volatility of the Company's share price over seven years which is reflective of the expected option life. Stock options were exercised regularly throughout 2020 and the average share price in 2020 was \$32.65 (2019 – \$36.22).

The Company recorded compensation expense related to its stock option program of \$3.0 million (2019 – \$3.4 million).

NOTE 19 SHARE-BASED PAYMENTS (continued)

STOCK OPTION PLAN (continued)

	2020		2019	
	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
Balance, beginning of year	10,529,360	\$ 41.22	9,701,894	\$ 42.27
Granted	2,104,365	36.82	1,511,540	34.34
Exercised	(14,194)	35.08	(171,561)	28.25
Forfeited	(689,307)	42.64	(512,513)	45.20
Balance, end of year	11,930,224	\$ 40.37	10,529,360	\$ 41.22
Exercisable, end of year	6,326,067	\$ 43.00	5,470,178	\$ 43.99

OPTIONS OUTSTANDING AT DECEMBER 31, 2020	EXPIRY DATE	EXERCISE PRICE \$	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2021	42.49 – 46.72	424,545	424,545
	2022	45.56 – 47.23	655,701	655,701
	2023	44.73 – 47.26	994,895	994,895
	2024	53.81	715,859	669,565
	2025	43.28 – 43.97	1,082,924	917,597
	2026	34.88 – 38.17	1,914,022	1,173,633
	2027	39.71 – 41.74	1,273,796	670,077
	2028	37.58 – 40.10	1,307,536	524,911
	2029	34.29 – 36.91	1,463,846	295,143
	2030	31.85 – 38.65	2,097,100	–
			11,930,224	6,326,067

SHARE UNIT PLANS

The Company has share unit plans for eligible employees to assist in retaining and further aligning the interests of senior management with those of the shareholders. These plans include Performance Share Unit (PSU), Deferred Share Unit (DSU) and Restricted Share Unit (RSU) plans. Under the terms of the plans, share units are awarded annually and are subject to time vesting conditions. In addition, the PSU and DSU plans are subject to performance vesting conditions. The value of each share unit is based on the share price of the Company's common shares. The PSUs and RSUs are cash settled and vest over a three year period. Certain employees can elect at the time of grant to receive a portion of their PSUs in the form of deferred share units which vest over a three year period. Deferred share units are redeemable when a participant is no longer an employee of the Company or any of its affiliates by a lump sum payment based on the value of the deferred share unit at that time. Additional share units are issued in respect of dividends payable on common shares based on a value of the share unit at the dividend payment date. The Company recorded compensation expense, excluding the impact of hedging, of \$16.8 million in 2020 (2019 – \$17.0 million) and a liability of \$31.5 million at December 31, 2020 (2019 – \$26.5 million).

SHARE PURCHASE PLANS

Under the Company's share purchase plans, eligible employees and IG Wealth Management consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of 3 years following the date of purchase. The Company's contributions are recorded in Advisory and business development and Operations and support expenses as paid and totalled \$3.8 million (2019 – \$10.0 million).

NOTE 19 SHARE-BASED PAYMENTS (continued)

DIRECTORS' DEFERRED SHARE UNIT PLAN

The Company has a Deferred Share Unit (DSU) plan for the directors of the Company to promote a greater alignment of interests between directors and shareholders of the Company. Under the terms of the plan, directors are required to receive 50% of their annual board retainer in the form of DSUs and may elect to receive the balance of their annual board retainer in cash or DSUs. Directors may elect to receive certain fees in a combination of DSUs and cash. The number of DSUs granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (value of DSU). A director who has elected to receive DSUs will receive additional DSUs in respect of dividends payable on common shares, based on the value of a DSU at the dividend payment date. DSUs are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by cash payments, based on the value of the DSUs at that time. At December 31, 2020, the fair value of the DSUs outstanding was \$21.2 million (2019 – \$18.6 million). Any difference between the change in fair value of the DSUs and the change in fair value of the total return swap, which is an economic hedge for the DSU plan, is recognized in Operations and support expense in the period in which the change occurs.

NOTE 20 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	EMPLOYEE BENEFITS	OTHER INVESTMENTS	INVESTMENT IN ASSOCIATES AND OTHER	TOTAL
2020				
Balance, beginning of year	\$ (165,947)	\$ 46,363	\$ (8,118)	\$ (127,702)
Other comprehensive income (loss)	(31,002)	247,085	47,983	264,066
Balance, end of year	\$ (196,949)	\$ 293,448	\$ 39,865	\$ 136,364
2019				
Balance, beginning of year	\$ (149,052)	\$ 57,234	\$ 46,020	\$ (45,798)
Other comprehensive income (loss)	(16,895)	10,597	(54,138)	(60,436)
Transfer out of FVTOCI	–	(21,468)	–	(21,468)
Balance, end of year	\$ (165,947)	\$ 46,363	\$ (8,118)	\$ (127,702)

Amounts are recorded net of tax.

NOTE 21 RISK MANAGEMENT

The Company actively manages its liquidity, credit and market risks.

LIQUIDITY AND FUNDING RISK RELATED TO FINANCIAL INSTRUMENTS

Liquidity and funding risk is the risk of the inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise.

The Company's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and the Company's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity management by the Financial Risk Management Committee, a committee of finance and other business leaders.

A key funding requirement for the Company is the funding of Consultant network compensation paid for the distribution of financial products and services. This compensation continues to be paid from operating cash flows.

NOTE 21 RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK RELATED TO FINANCIAL INSTRUMENTS (continued)

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources and to manage any derivative collateral requirements. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program).

Certain subsidiaries of the Company are approved issuers of NHA MBS and are approved sellers into the CMB Program. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in the Principal Reinvestment Accounts.

The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts.

The Company's contractual maturities of certain financial liabilities were as follows:

AS AT DECEMBER 31, 2020 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1 - 5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ -	\$ 13.1	\$ 21.4	\$ -	\$ 34.5
Deposits and certificates	1,099.4	2.1	2.5	0.9	1,104.9
Obligations to securitization entities	-	1,543.1	4,610.1	20.7	6,173.9
Leases ⁽¹⁾	-	27.6	88.2	131.1	246.9
Long-term debt	-	-	-	2,100.0	2,100.0
Pension funding ⁽²⁾	-	14.1	-	-	14.1
Total contractual maturities	\$ 1,099.4	\$ 1,600.0	\$ 4,722.2	\$ 2,252.7	\$ 9,674.3

(1) Includes remaining lease payments related to office space and equipment used in the normal course of business.

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2020. Pension funding requirements beyond 2021 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

In addition to the Company's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled \$825 million at December 31, 2020, unchanged from December 31, 2019. The lines of credit at December 31, 2020 consisted of committed lines of \$650 million and uncommitted lines of \$175 million, unchanged from December 31, 2019. The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines of credit are at the bank's sole discretion. As at December 31, 2020 and December 31, 2019, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2019.

CREDIT RISK RELATED TO FINANCIAL INSTRUMENTS

This is the risk of financial loss to the Company if a counterparty to a transaction fails to meet its obligations. The Company's cash and cash equivalents, other investment holdings, mortgage portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

At December 31, 2020, cash and cash equivalents of \$771.6 million (2019 – \$720.0 million) consisted of cash balances of \$76.6 million (2019 – \$68.0 million) on deposit with Canadian chartered banks and cash equivalents of \$695.0 million (2019 – \$652.0 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$96.0 million (2019 – \$34.5 million), provincial government treasury bills and promissory notes of \$148.8 million (2019 – \$206.5 million), and bankers' acceptances and other short-term notes issued by Canadian chartered banks of \$450.2 million (2019 – \$411.0 million).

Client funds on deposit of \$1,063.4 million (2019 – \$561.3 million) represent cash balances held in client accounts which are deposited at Canadian financial institutions.

The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

CREDIT RISK RELATED TO FINANCIAL INSTRUMENTS *(continued)*

As at December 31, 2020, residential mortgages, recorded on the Company's balance sheet, of \$6.3 billion (2019 – \$7.2 billion) consisted of \$6.0 billion sold to securitization programs (2019 – \$6.8 billion), \$334.5 million held pending sale or securitization (2019 – \$344.5 million) and \$14.1 million related to the Company's intermediary operations (2019 – \$24.2 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and
- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and IG Wealth Management Consultants as part of a client's IG Living Plan™.

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

- Under the NHA MBS program totalling \$3.2 billion (2019 – \$3.9 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling \$2.8 billion (2019 – \$2.9 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$73.0 million (2019 – \$71.9 million) and \$45.6 million (2019 – \$37.9 million), respectively, at December 31, 2020. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 3.0% of mortgages held in ABCP Trusts insured at December 31, 2020 (2019 – 4.6%).

At December 31, 2020, residential mortgages recorded on balance sheet were 55.3% insured (2019 – 59.1%). As at December 31, 2020, impaired mortgages on these portfolios were \$4.8 million, compared to \$2.4 million at December 31, 2019. Uninsured non-performing mortgages over 90 days on these portfolios were \$2.3 million at December 31, 2020, compared to \$1.6 million at December 31, 2019.

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

The Company regularly reviews the credit quality of the mortgages and the adequacy of the allowance for expected credit losses.

The Company's allowance for expected credit losses was \$0.8 million at December 31, 2020, compared to \$0.7 million at December 31, 2019, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience, ii) recent trends including the economic impact of COVID-19 and Canada's COVID-19 Economic Response Plan to support Canadians and businesses, iii) current portfolio credit metrics and other relevant characteristics, iv) our strong financial planning relationship with our clients, and v) stress testing of losses under adverse real estate market conditions.

The Company's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2019.

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions and to hedge market risk related to certain stock-based compensation arrangements. These derivatives are discussed more fully under the Market Risk section.

To the extent that the fair value of the derivatives is in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfil their obligations under these arrangements.

CREDIT RISK RELATED TO FINANCIAL INSTRUMENTS (continued)

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of \$35.8 million (2019 – \$15.7 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was \$3.8 million at December 31, 2020 (2019 – \$0.7 million). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at December 31, 2020. Management of credit risk related to derivatives has not changed materially since December 31, 2019.

MARKET RISK RELATED TO FINANCIAL INSTRUMENTS

This is the risk of loss arising from changes in the values of the Company's financial instruments due to changes in foreign exchange rates, interest rates or equity prices.

Interest Rate Risk

The Company is exposed to interest rate risk on its loan portfolio and on certain of the derivative financial instruments used in the Company's mortgage banking operations.

The Company manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of \$21.1 million (2019 – negative \$0.9 million) and an outstanding notional amount of \$0.7 billion at December 31, 2020 (2019 – \$0.8 billion). The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The fair value of these swaps totalled \$19.9 million (2019 – negative \$4.9 million), on an outstanding notional amount of \$1.3 billion at December 31, 2020 (2019 – \$1.6 billion). The net fair value of these swaps of negative \$1.2 million at December 31, 2020 (2019 – negative \$5.8 million) is recorded on the balance sheet and has an outstanding notional amount of \$2.0 billion (2019 – \$2.4 billion).
- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. The Company enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by the Company pending sale or securitization. Hedge accounting is applied to the cost of funds on certain securitization activities. The effective portion of fair value changes of the associated interest rate swaps are initially recognized in Other comprehensive income and subsequently recognized in Wealth management revenue over the term of the related Obligations to securitization entities. The negative fair value of these swaps was \$0.3 million (2019 – positive \$0.6 million) on an outstanding notional amount of \$191.3 million at December 31, 2020 (December 31, 2019 – \$180.4 million).

As at December 31, 2020, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$1.3 million (2019 – decrease of \$2.0 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2019.

Equity Price Risk

The Company is exposed to equity price risk on its equity investments (Note 4) which are classified as either fair value through other comprehensive income or fair value through profit or loss or investments in associates. The fair value of the equity investments was \$632.3 million at December 31, 2020 (2019 – \$357.4 million).

The Company sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of IGM Financial Inc. The Company hedges its exposure to this risk through the use of forward agreements and total return swaps.

NOTE 21 RISK MANAGEMENT (continued)

MARKET RISK RELATED TO FINANCIAL INSTRUMENTS (continued)

Foreign Exchange Risk

The Company is exposed to foreign exchange risk on its investment in China AMC. Changes to the carrying value due to changes in foreign exchange rates is recognized in Other comprehensive income. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the aggregate carrying value of foreign investments by approximately \$34.0 million (\$37.6 million).

The Company's proportionate share of China AMC's earnings, recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings, is also affected by changes in foreign exchange rates. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the Company's proportionate share of associates' earnings (losses) by approximately \$2.0 million (\$2.1 million).

RISKS RELATED TO ASSETS UNDER MANAGEMENT

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings.

NOTE 22 DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative contracts which are either exchange-traded or negotiated in the over-the-counter market on a diversified basis with Schedule I chartered banks or Canadian bank-sponsored securitization trusts that are counterparties to the Company's securitization transactions. In all cases, the derivative contracts are used for non-trading purposes. Interest rate swaps are contractual agreements between two parties to exchange the related interest payments based on a specified notional amount and reference rate for a specified period. Total return swaps are contractual agreements to exchange payments based on a specified notional amount and the underlying security for a specific period. Options are contractual agreements which convey the right, but not the obligation, to buy or sell specific financial instruments at a fixed price at a future date. Forward contracts are contractual agreements to buy or sell a financial instrument on a future date at a specified price.

Certain of the Company's derivative financial instruments are subject to master netting arrangements and are presented on a gross basis. The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position and recorded as assets on the Consolidated Balance Sheets. The total estimated fair value represents the total amount that the Company would receive or pay to terminate all agreements at each year end. However, this would not result in a gain or loss to the Company as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

The following table summarizes the Company's derivative financial instruments:

	NOTIONAL AMOUNT				CREDIT RISK	FAIR VALUE	
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		ASSET	LIABILITY
2020							
Swaps							
Hedge accounting	\$ -	\$ 20,831	\$ 135,731	\$ 156,562	\$ -	\$ -	\$ 214
No hedge accounting	992,444	1,058,001	15,081	2,065,526	35,770	35,770	32,854
Forward contracts							
Hedge accounting	14,890	36,650	-	51,540	1,564	1,564	1,446
	\$ 1,007,334	\$ 1,115,482	\$ 150,812	\$ 2,273,628	\$ 37,334	\$ 37,334	\$ 34,514
2019							
Swaps							
Hedge accounting	\$ -	\$ 59,559	\$ 46,504	\$ 106,063	\$ 373	\$ 373	\$ 10
No hedge accounting	914,441	1,466,479	76,973	2,457,893	12,049	12,049	17,183
Forward contracts							
Hedge accounting	10,175	33,440	-	43,615	2,782	2,782	-
	\$ 924,616	\$ 1,559,478	\$ 123,477	\$ 2,607,571	\$ 15,204	\$ 15,204	\$ 17,193

NOTE 22 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The credit risk related to the Company's derivative financial instruments after giving effect to any netting agreements was \$3.8 million (2019 – \$0.7 million).

The credit risk related to the Company's derivative financial instruments after giving effect to netting agreements and including rights to future net interest income, was \$3.8 million (2019 – \$0.7 million). Rights to future net interest income are related to the Company's securitization activities and are not reflected on the Consolidated Balance Sheets.

NOTE 23 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values are management's estimates and are calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and are matters of significant judgment.

All financial instruments measured at fair value and those for which fair value is disclosed are classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation.

Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the most advantageous market, utilizing a hierarchy of three different valuation techniques, based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data; and

Level 3 – Unobservable inputs that are supported by little or no market activity. Valuation techniques are primarily model-based.

Markets are considered inactive when transactions are not occurring with sufficient regularity. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In those instances where traded markets are not considered sufficiently active, fair value is measured using valuation models which may utilize predominantly observable market inputs (Level 2) or may utilize predominantly non-observable market inputs (Level 3). Management considers all reasonably available information including indicative broker quotations, any available pricing for similar instruments, recent arm's length market transactions, any relevant observable market inputs, and internal model-based estimates. Management exercises judgment in determining the most appropriate inputs and the weighting ascribed to each input as well as in the selection of valuation methodologies.

Fair value is determined using the following methods and assumptions:

Other investments and other financial assets and financial liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.

Loans classified as Level 2 are valued using market interest rates for loans with similar credit risk and maturity.

Loans classified as Level 3 are valued by discounting the expected future cash flows at prevailing market yields.

Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.

Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is valued using quoted prices for each debenture available in the market.

Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

Level 1 financial instruments include exchange-traded equity investments and open-end investment fund units and other financial liabilities in instances where there are quoted prices available from active markets.

NOTE 23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Level 2 assets and liabilities include fixed income securities, loans, derivative financial instruments, deposits and certificates and long-term debt. The fair value of fixed income securities is determined using quoted market prices or independent dealer price quotes. The fair value of derivative financial instruments and deposits and certificates are determined using valuation models, discounted cash flow methodologies, or similar techniques using primarily observable market inputs. The fair value of long-term debt is determined using indicative broker quotes.

Level 3 assets and liabilities include investments with little or no trading activity valued using broker-dealer quotes, loans, other financial assets, obligations to securitization entities and derivative financial instruments. Derivative financial instruments consist of principal reinvestment account swaps which represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. Fair value is determined by discounting the projected cashflows of the swaps. The notional amount, which is an input used to determine the fair value of the swap, is determined using an average unobservable prepayment rate of 15% which is based on historical prepayment patterns. An increase (decrease) in the assumed mortgage prepayment rate increases (decreases) the notional amount of the swap.

The following table presents the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table also excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, and certain other financial liabilities.

2020	CARRYING VALUE	FAIR VALUE			
		LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets recorded at fair value					
Other investments					
– FVTOCI	\$ 593,273	\$ –	\$ –	\$ 593,273	\$ 593,273
– FVTPL	39,027	38,748	–	279	39,027
Loans					
– FVTPL	3,291	–	3,291	–	3,291
Derivative financial instruments	37,334	–	35,389	1,945	37,334
Financial assets recorded at amortized cost					
Loans					
– Amortized cost	6,328,564	–	346,428	6,186,410	6,532,838
Financial liabilities recorded at fair value					
Derivative financial instruments	34,514	–	11,466	23,048	34,514
Financial liabilities recorded at amortized cost					
Deposits and certificates	1,104,889	–	1,105,384	–	1,105,384
Obligations to securitization entities	6,173,886	–	–	6,345,189	6,345,189
Long-term debt	2,100,000	–	2,653,814	–	2,653,814
2019					
Financial assets recorded at fair value					
Other investments					
– FVTOCI	\$ 301,196	\$ –	\$ –	\$ 301,196	\$ 301,196
– FVTPL	56,166	55,603	–	563	56,166
Loans					
– FVTPL	–	–	–	–	–
Derivative financial instruments	15,204	–	10,762	4,442	15,204
Financial assets recorded at amortized cost					
Loans					
– Amortized cost	7,198,043	–	366,020	6,907,743	7,273,763
Financial liabilities recorded at fair value					
Derivative financial instruments	17,193	–	11,845	5,348	17,193
Other financial liabilities	–	–	–	–	–
Financial liabilities recorded at amortized cost					
Deposits and certificates	584,331	–	584,662	–	584,662
Obligations to securitization entities	6,913,636	–	–	6,996,953	6,996,953
Long-term debt	2,100,000	–	2,453,564	–	2,453,564

NOTE 23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

There were no significant transfers between Level 1 and Level 2 in 2020 and 2019.

The following table provides a summary of changes in Level 3 assets and liabilities measured at fair value on a recurring basis.

	BALANCE JANUARY 1	GAINS/ (LOSSES) INCLUDED IN NET EARNINGS ⁽¹⁾	GAINS/(LOSSES) INCLUDED IN OTHER COMPREHENSIVE INCOME	PURCHASES AND ISSUANCES	SETTLEMENTS	TRANSFERS IN/OUT	BALANCE DECEMBER 31
2020							
Other investments							
– FVTOCI	\$ 301,196	\$ –	\$ 285,650	\$ 6,427	\$ –	\$ –	\$ 593,273
– FVTPL	563	(194)	–	–	90	–	279
Derivative financial instruments, net	(906)	(27,143)	–	1,727	(5,219)	–	(21,103)
2019							
Other investments							
– FVTOCI	\$ 372,396	\$ –	\$ 12,248	\$ 66,693	\$ –	\$ (150,141) ⁽²⁾	\$ 301,196
– FVTPL	552	11	–	–	–	–	563
Derivative financial instruments, net	4,899	(5,207)	–	(1,551)	(953)	–	(906)

(1) Included in Wealth management revenue or Operations and support expenses in the Consolidated Statements of Earnings.

(2) Reclassification of investment in Personal Capital from Other investments (FVTOCI) to Investment in associates (equity method).

NOTE 24 EARNINGS PER COMMON SHARE

	2020	2019
Earnings		
Net earnings	\$ 764,606	\$ 748,947
Non-controlling interest	(198)	–
Perpetual preferred share dividends	–	(2,213)
Net earnings available to common shareholders	\$ 764,408	\$ 746,734
Number of common shares (in thousands)		
Weighted average number of common shares outstanding	238,307	239,105
Add: Potential exercise of outstanding stock options ⁽¹⁾	–	76
Average number of common shares outstanding – Diluted basis	238,307	239,181
Earnings per common share (in dollars)		
Basic	\$ 3.21	\$ 3.12
Diluted	\$ 3.21	\$ 3.12

(1) Excludes 2,934 thousand shares in 2020 related to outstanding stock options that were anti-dilutive (2019 – 1,591 thousand).

NOTE 25 CONTINGENT LIABILITIES AND GUARANTEES

CONTINGENT LIABILITIES

The Company is subject to legal actions arising in the normal course of its business. In December 2018, a proposed class action was filed in the Ontario Superior Court against Mackenzie Financial Corporation which alleges that the company should not have paid mutual fund trailing commissions to order execution only dealers. Although it is difficult to predict the outcome of any such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

NOTE 25 CONTINGENT LIABILITIES AND GUARANTEES (continued)

GUARANTEES

In the normal course of operations, the Company executes agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Company has also agreed to indemnify its directors and officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Company could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Company has not made any payments under such indemnification agreements. No provisions have been recognized related to these agreements.

NOTE 26 RELATED PARTY TRANSACTIONS

TRANSACTIONS AND BALANCES WITH RELATED ENTITIES

The Company enters into transactions with The Canada Life Assurance Company (Canada Life), which is a subsidiary of its affiliate, Lifeco, which is a subsidiary of Power Corporation of Canada. On January 1, 2020, The Great-West Life Assurance Company, London Life Insurance Company and Canada Life amalgamated into a single company, The Canada Life Assurance Company. These transactions are in the normal course of operations and have been recorded at fair value:

- During 2020 and 2019, the Company provided to and received from Canada Life certain administrative services. In 2020, the Company notified Canada Life of its intention to terminate its long-term technology infrastructure related sharing agreement. The Company distributes insurance products under a distribution agreement with Canada Life and received \$45.1 million in distribution fees (2019 – \$54.8 million). The Company received \$18.4 million (2019 – \$17.1 million) and paid \$29.6 million (2019 – \$26.2 million) to Canada Life and related subsidiary companies for the provision of sub-advisory services for certain investment funds. The Company paid \$78.3 million (2019 – \$78.8 million) to Canada Life related to the distribution of certain investment funds of the Company.
- During 2020, the Company sold residential mortgage loans to Canada Life for \$20.9 million (2019 – \$10.8 million).

After obtaining advanced tax rulings in October 2017, the Company agreed to tax loss consolidation transactions with the Power Corporation of Canada group whereby shares of a subsidiary that has generated tax losses may be acquired in each year up to and including 2020. The Company recognized the benefit of the tax losses realized throughout the year. On each of December 31, 2020 and December 31, 2019, the Company acquired shares of such loss companies and recorded the benefit of the tax losses acquired. The benefits from these tax loss consolidation arrangements ended at December 31, 2020.

Additional transactions with related parties included the sale of Personal Capital (Note 8), the investment in Northleaf (Note 8), the acquisition of GLC Asset Management Group Ltd. and the sale of Quadrus Group of Funds (Note 29).

KEY MANAGEMENT COMPENSATION

The total compensation and other benefits to directors and employees classified as key management, being individuals having authority and responsibility for planning, directing and controlling the activities of the Company, are as follows:

	2020	2019
Compensation and employee benefits	\$ 3,848	\$ 4,260
Post-employment benefits	13,522	3,988
Share-based payments	1,431	2,023
	\$ 18,801	\$ 10,271

Share-based payments exclude the fair value remeasurement of the deferred share units associated with changes in the Company's share price (Note 19).

NOTE 27 COVID-19

Governments worldwide have enacted emergency measures to combat the spread of a novel strain of coronavirus (COVID-19). These measures, which include the implementation of travel bans, closing of non-essential businesses, self-imposed quarantine periods and social distancing, have caused significant volatility and weakness in global equity markets and material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The Company has implemented its business continuity plan as a result of these events, which has included moving substantially all employees and consultants to work from home and further supporting the Company's information technology infrastructure.

The duration and full impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. As a result, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

NOTE 28 SEGMENTED INFORMATION

The Company's reportable segments are:

- Wealth Management
- Asset Management
- Strategic Investments and Other

These segments reflect the Company's internal financial reporting and performance measurement.

- **Wealth Management** – reflects the activities of operating companies that are principally focused on providing financial planning and related services to Canadian households. This segment includes the activities of IG Wealth Management and Investment Planning Counsel. These firms are retail distribution organizations who serve Canadian households through their securities dealers, mutual fund dealers and other subsidiaries licensed to distribute financial products and services. A majority of the revenues of this segment are derived from providing financial advice and distributing financial products and services to Canadian households. This segment also includes the investment management activities of these organizations, including mutual fund management and discretionary portfolio management services.
- **Asset Management** – reflects the activities of operating companies primarily focused on providing investment management services, and represents the operations of Mackenzie Investments. Investment management services are provided to a suite of investment funds that are distributed through third party dealers and financial advisors, and also through institutional advisory mandates to financial institutions, pensions and other institutional investors.
- **Strategic Investments and Other** – primarily represents the key strategic investments made by the Company, including China Asset Management Co., Ltd., Great-West Lifeco Inc., Northleaf Capital Group Ltd., Wealthsimple Financial Corp., and Portag3 Ventures LPs. Unallocated capital is also included within this segment.

NOTE 28 SEGMENTED INFORMATION (continued)

2020

	WEALTH MANAGEMENT	ASSET MANAGEMENT	STRATEGIC INVESTMENTS AND OTHER	INTERSEGMENT	TOTAL SEGMENT	ADJUSTMENTS ⁽¹⁾	TOTAL
Revenues							
Wealth management	\$ 2,275,955	\$ –	\$ –	\$ (16,379)	\$ 2,259,576	\$ –	\$ 2,259,576
Asset management	–	913,579	–	(100,648)	812,931	–	812,931
Dealer compensation	–	(299,530)	–	16,367	(283,163)	–	(283,163)
Net asset management	–	614,049	–	(84,281)	529,768	–	529,768
Net investment income and other	2,299	2,900	5,960	(182)	10,977	67,232	78,209
Proportionate share of associates' earnings (Note 8)	–	–	147,029	–	147,029	3,400	150,429
	2,278,254	616,949	152,989	(100,842)	2,947,350	70,632	3,017,982
Expenses							
Advisory and business development	959,946	80,212	–	(12)	1,040,146	–	1,040,146
Operations and support	453,738	293,755	4,063	(182)	751,374	79,276	830,650
Sub-advisory	163,197	8,664	–	(100,648)	71,213	–	71,213
	1,576,881	382,631	4,063	(100,842)	1,862,733	79,276	1,942,009
Earnings before undernoted	\$ 701,373	\$ 234,318	\$ 148,926	\$ –	1,084,617	(8,644)	1,075,973
Interest expense ⁽²⁾					(110,597)	–	(110,597)
Gain on sale of Personal Capital					37,232	(37,232)	–
Gain on sale of QGOF net of acquisition costs					25,184	(25,184)	–
Proportionate share of associate's adjustments					3,400	(3,400)	–
Restructuring and other charges					(74,460)	74,460	–
Earnings before income taxes					965,376	–	965,376
Income taxes					200,770	–	200,770
Net earnings					764,606	–	764,606
Non-controlling interest					(198)	–	(198)
Net earnings available to common shareholders					\$ 764,408	\$ –	\$ 764,408
Identifiable assets	\$ 8,984,472	\$ 1,507,729	\$ 2,767,078	\$ –	\$ 13,259,279		
Goodwill	1,491,687	1,311,388	–	–	2,803,075		
Total assets	\$ 10,476,159	\$ 2,819,117	\$ 2,767,078	\$ –	\$ 16,062,354		

(1) Gain on sale of Personal Capital, Gain on sale of Quadrus Group of Funds (QGOF) net of acquisition costs, Proportionate share of associate's adjustments, and Restructuring and other changes are not related to a specific segment and therefore excluded from segment results. These items have been added back to their respective revenue or expense line item to reconcile Total Segment results to the Company's Consolidated Statements of Earnings.

(2) Interest expense includes interest on long-term debt and interest on leases.

NOTE 28 SEGMENTED INFORMATION (continued)

2019

	WEALTH MANAGEMENT	ASSET MANAGEMENT	STRATEGIC INVESTMENTS AND OTHER	INTERSEGMENT	TOTAL SEGMENT	ADJUSTMENTS ⁽¹⁾	TOTAL
Revenues							
Wealth management	\$ 2,315,254	\$ –	\$ –	\$ (16,206)	\$ 2,299,048	\$ –	\$ 2,299,048
Asset management	–	896,498	–	(104,171)	792,327	–	792,327
Dealer compensation	–	(292,896)	–	15,821	(277,075)	–	(277,075)
Net asset management	–	603,602	–	(88,350)	515,252	–	515,252
Net investment income and other	13,601	4,238	7,273	(287)	24,825	–	24,825
Proportionate share of associates' earnings (Note 8)	–	–	122,425	–	122,425	(17,200)	105,225
	2,328,855	607,840	129,698	(104,843)	2,961,550	(17,200)	2,944,350
Expenses							
Advisory and business development	986,479	79,869	–	(327)	1,066,021	–	1,066,021
Operations and support	435,944	295,209	2,239	(347)	733,045	–	733,045
Sub-advisory	161,546	10,855	–	(104,169)	68,232	–	68,232
	1,583,969	385,933	2,239	(104,843)	1,867,298	–	1,867,298
Earnings before undernoted	\$ 744,886	\$ 221,907	\$ 127,459	\$ –	1,094,252	(17,200)	1,077,052
Interest expense ⁽²⁾					(108,386)	–	(108,386)
Proportionate share of associate's one-time charges					(17,200)	17,200	–
Earnings before income taxes					968,666	–	968,666
Income taxes					219,719	–	219,719
Net earnings					748,947	–	748,947
Perpetual preferred share dividends					(2,213)	–	(2,213)
Net earnings available to common shareholders					\$ 746,734	\$ –	\$ 746,734
Identifiable assets	\$ 9,021,978	\$ 1,332,705	\$ 2,376,526	\$ –	\$ 12,731,209		
Goodwill	1,491,687	1,168,580	–	–	2,660,267		
Total assets	\$ 10,513,665	\$ 2,501,285	\$ 2,376,526	\$ –	\$ 15,391,476		

(1) Proportionate share of Associate's one-time charges is not related to a specific segment and therefore excluded from segment results. These items have been added back to their respective revenue or expense line item to reconcile Total Segment results to the Company's Consolidated Statements of Earnings.

(2) Interest expense includes interest on long-term debt and, beginning January 1, 2019, includes interest on leases of \$4.1 million as a result of the Company's adoption of IFRS 16, Leases.

NOTE 29 ACQUISITIONS

GLC ASSET MANAGEMENT GROUP LTD. (GLC)

On December 31, 2020, the Company's subsidiary, Mackenzie, acquired all of the common shares of GLC, a wholly-owned subsidiary of Great-West Lifeco Inc. (Lifeco), for cash consideration of \$185.0 million. Net cash outflow related to the transaction was \$175.8 million, including acquisition costs of \$3.8 million and \$13.0 million in cash acquired.

In a separate transaction, Lifeco's subsidiary, Canada Life Assurance Company (Canada Life) acquired the fund management contracts relating to private label Quadrus Group of Funds (QGOF) from Mackenzie for cash consideration of \$30.0 million. Mackenzie was previously the manager and trustee of the QGOF. Subsequent to the sale, Mackenzie continues to provide investment and administration services to the QGOF.

The purchase price allocation is preliminary and subject to change during the measurement period, which will not exceed one year from the transaction date.

Purchase price allocation

Cash and cash equivalents	\$	13,003
Other current assets		2,528
Deferred tax asset		945
Intangible assets		56,763
Goodwill ⁽¹⁾		134,799
Accounts payable and accrued liabilities		(8,482)
Deferred tax liability		(14,522)
	\$	185,034

(1) Nil deductible for tax purposes

Goodwill is attributable to synergies including expansion of Mackenzie's distribution reach into the fast-growing group retirement business. Identified intangible assets are comprised of finite life management contracts valued at \$56.8 million.

The acquisition had no impact to the Company's revenues and expenses for the year ended December 31, 2020.

GREENCHIP FINANCIAL CORP. (GREENCHIP)

On December 22, 2020 Mackenzie acquired 100% of Greenchip, a Canadian firm focused exclusively on the environmental economy since 2007.

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Groupe Bruxelles Lambert

PART D

The attached document discloses information relating to the financial results of Groupe Bruxelles Lambert as issued by Groupe Bruxelles Lambert.



Delivering meaningful growth

March 11, 2021
Regulated information

2020 Full-year results

About Groupe Bruxelles Lambert

Groupe Bruxelles Lambert (“GBL”) is an established investment holding company, with over sixty years of stock exchange listing, a net asset value of EUR 20 billion and a market capitalisation of EUR 13 billion at the end of December 2020. GBL is a leading investor in Europe, focused on long-term value creation and relying on a stable and supportive family shareholder base. GBL strives to maintain a diversified high-quality portfolio composed of global companies, leaders in their sector, in which it can contribute to value creation by being an active professional investor. GBL seeks to provide attractive returns to its shareholders through a combination of a sustainable dividend and growth in its net asset value.

GBL is listed on the Euronext Brussels stock exchange (Ticker: GBLB BB ; ISIN code: BE0003797140) and is included in the BEL20 index.

Key financial data¹

EUR million (Group share)	End of December		Variation 2020/2019	EUR p.s. ²	
	2020	2019		2020	2019
Consolidated net result	391	705	- 44.5%	2.53	4.48
Cash earnings	440	595	- 26.1%	2.72	3.69
Dividend	396 ³	508	- 22.1%	2.50 ⁴	3.15
Net asset value	20,498	20,349	+ 0.7%	127.03	126.11
Market capitalisation	13,315	15,161	- 12.2%	82.52	93.96
Discount	35.0%	25.5%	+ 9.5%		
Net investments / (divestments)	1,433 ⁵	(543) ⁶	1,976		
Net cash / (Net debt)	(1,563)	(768)	(795)		
Loan to Value	7.3%	3.7%	3.6%		

Ian Gallienne, CEO of GBL commented, “The challenges of 2020 are like no others in recent generations. Despite the pandemic’s impact on our net result and cash earnings, the increase in our net asset value underscores the agility and resilience of our portfolio companies. Our strong financial position has enabled us to continue to move our strategy forward. This year tested our own resilience, and I am confident that the steps we have taken will allow us to better navigate the economic recovery and the years to come. We will continue to capitalize on our origination capabilities to build a diversified and quality portfolio in order to generate over time an attractive total return for our shareholders.”

¹ Alternative performance indicators are defined in the glossary available on GBL’s website : <http://www.gbl.be/en/glossary>

² Calculation per share based on the number of shares issued as of December 31, 2020 (161.4 million), except for the net result per share which refers, in accordance with IFRS, to the weighted average number of shares (154.4 million in 2020)

³ Subject to approval at GBL’s General Shareholders’ Meeting on April 27, 2021

⁴ Amount calculated based on the number of dividend-entitled shares

⁵ Excluding forward sales of Total shares exercised in 2019 and having matured in January 2020

⁶ Including forward sales of Total shares exercised in 2019 and having matured in January 2020

Attractive total shareholder return, outperforming the Stoxx Europe 50

Over the course of this unprecedented year, GBL's net asset value significantly outperformed the Stoxx Europe 50 (+ 0.7% vs. - 8.7%), driven by the resilience and vigilance of our portfolio companies. We remain convinced that they will exit this crisis stronger and more competitive.

Our commitment to investors to generate an attractive total return by outperforming our reference index over the long term, through both net asset value growth and a sustainable dividend, remains intact. Since the launch of our portfolio rebalancing strategy in 2012, we generated at end 2020 a total shareholder return of 9.5% vs. 7.3% for the Stoxx Europe 50, and we aim to generate double-digit returns.

In this volatile and uncertain market context, the discount to our net asset value has widened to 35%¹, which does not reflect our fundamentals. We therefore accelerated our share buybacks, completing the second EUR 250 million tranche and getting authorization in September 2020 for a third EUR 250 million tranche, currently underway.

Solid financial position supporting the execution of our strategy

The pandemic had a significative impact on our financial performance. Cash earnings declined 26% to EUR 440 million due to a lower dividend contribution from our portfolio companies. The consolidated net result at end December 2020 declined 45% to EUR 391 million.

However, we maintained in full and distributed a 2020 dividend for the 2019 financial year of EUR 3.15 per share, representing an attractive yield of 3.4%². Meanwhile, we pursued our financial discipline and ended the year with a Loan to Value ratio of 7.3% and a liquidity profile of EUR 2.9 billion, enabling us to continue to seize new investment opportunities.

We therefore deployed EUR 1.5 billion in capital, primarily behind Sienna Capital and SGS, as well as in new investment Mowi, the global leader in farmed salmon production, at satisfactory entry points.

Finally, as testament to our solid fundamentals as a long-term and engaged investor, in September 2020 S&P and Moody's assigned us A+/A1 credit ratings, positioning us as one of Europe's highest-rated investment companies. The success of the placements of the EUR 450 million in bonds exchangeable into GEA shares in October 2020 and EUR 500 million in institutional bonds executed at efficient terms in early 2021 underscores GBL's strength as a rated issuer.

Strengthening of our alternative asset platform and our ESG ambitions

Sienna Capital, our alternative asset platform, recorded a solid performance in 2020, including a 41% increase in net asset value, to EUR 2.5 billion, notably driven by its portfolio exposure, approximately 25% of which is weighted in technology and digital. Our ambition is to diversify Sienna Capital to manage third party funds, alongside its own capital. Such diversification should lead to incremental revenue growth by securing ongoing management fees, while improving operational leverage through a common investment platform.

We also have reinforced our long-term ESG value creation ambitions, notably through the continuation of our climate commitment and the progressive integration of our thoughts in our investment process by our new Head of ESG.

¹ Compared to a 25% average discount over the past five years

² Based on GBL's share price of EUR 93.96 at end 2019

1. Portfolio rotation, net asset value increase and financial position evolution

1.1. 2020 Highlights

Listed investments: strengthening our portfolio

Total: In March and April 2019, GBL entered into forward sales related to 15.9 million **Total** shares (representing 0.60% of the capital). Those forward sales were executed at an average spot price of EUR 50.52 and an average forward price of EUR 48.37 per share for a total amount of EUR 771 million. The capital gain generated by these sales amounts to EUR 411 million, not impacting GBL's consolidated net result in 2020, in accordance with IFRS 9. At maturity of these sales, on January 24, 2020, GBL's ownership in Total has been reduced to 0.01%. GBL continued to receive dividends on the disposed shares until that date.

SGS: On February 4, 2020, GBL participated for an amount of EUR 374 million in the private placement of **SGS** shares carried out by the von Finck family at a price of CHF 2,425 per share. GBL's ownership in SGS's capital increased from 16.75% at year-end 2019 to 18.93% following this investment and was valued at EUR 3,539 million as of December 31, 2020.

Mowi: On November 26, 2020, GBL, through its fully-owned subsidiary Owen Capital, crossed the 5.00% holding disclosure threshold for the shares and voting rights in Mowi ASA ("**Mowi**"). Based and listed in Norway, Mowi is the world's largest producer of Atlantic salmon and was ranked for the second consecutive year as the most sustainable protein producer by the FAIRR Initiative¹. The group has over 14,500 employees and has global reach with a presence in more than 25 countries. In 2020 Mowi generated revenues of EUR 3.8 billion. As of end December 2020, the group had a market capitalization of EUR 9.4 billion, and GBL held 5.85% of the company valued at EUR 552 million.

Private assets: majority stake in a fast-growing leader

Canyon: On December 15, 2020, GBL announced that it had signed a definitive agreement to acquire a majority stake in Canyon Bicycles GmbH ("**Canyon**"), a German company and leader in direct-to-consumer (DTC) distribution of high-end bicycles. The company is in strong growth, with revenues having nearly doubled over the past three years and now exceeding EUR 400 million. Canyon is at the crossroads of several structural trends, in line with GBL's strategic priorities, including health and wellness, sustainable mobility and online sales. Founder Roman Arnold will remain Chairman of the Advisory Board and will be joined by GBL representatives including Jean-Pierre Millet and Tony Fadell. Jean-Pierre Millet brings his long experience in private equity, having led Carlyle Europe for 15 years before founding PrimeStone Capital. Tony Fadell is best known as one of the creators of the iPod, the founder of Nest and CEO of Future Shape. Tony Fadell brings to Canyon his product development expertise as well as his passion for cycling and will invest alongside GBL, as will Mr. Millet.

Sienna Capital: dynamic asset rotation

Sagard: In March 2020, Sienna Capital committed EUR 150 million to **Sagard's** new fund, Sagard 4 and EUR 50 million to Sagard NewGen, a fund dedicated to health and technology.

Ceva: In March 2020, Sagard II finalized the disposal of **Ceva Santé Animale** ("**Ceva**") in which it had been a shareholder since 2010. With EUR 1.2 billion of sales in 2019, Ceva has become in a few years one of the worldwide leaders in animal health, benefiting from sustained organic growth and ambitious M&A. Sienna Capital has reinvested in the group through Sagard 3 and Sagard 4 which hold a significant stake in the new transaction.

Sienna Capital Opportunity Fund SCSp: As part of its strategic objective to manage external capital, Sienna Capital has set up **Sienna Capital Opportunity Fund SCSp** in the second quarter of 2020 and committed EUR 250 million to this fund.

¹ Coller FAIRR Protein Producer Index assesses the world's 60 largest publicly-listed animal protein producers, worth over USD 338 billion combined. Firms are ranked against 10 environmental, social and governance (ESG)-related criteria such as their climate strategy or the sustainability of sourcing practices within the value chain.

C2 Capital: In August 2020, Sienna Capital committed USD 110 million to **C2 Capital's** global export-to-China fund, with anchor investment by the Alibaba Group, which invests mainly in companies focused on the production of consumer goods with a high export demand potential to China.

Pedro Antonio Arias joined Sienna Capital in September 2020 as CEO. Previously, he created and oversaw since 2013 Amundi's platform of "Alternative and Real Assets." This platform now represents EUR 55 billion in assets under management and encompasses real estate, private equity, private debt, renewable energy infrastructures and multi-management solutions.

Avanti Acquisition Corp.: On October 2, 2020, Sienna Capital conducted in joint partnership with NNS Group the listing on the New York Stock Exchange of the Special Purpose Acquisition Company ("SPAC") **Avanti Acquisition Corp.** As a result of strong demand from investors, notably due to the European angle of this investment vehicle, the size of the offer was increased from USD 500 million to USD 600 million.

Globality: In December 2020, Sienna Capital committed EUR 100 million to the Series E funding of **Globality**. Based in Silicon Valley and founded by Joel Hyatt, Globality is the leading smart sourcing platform powered by artificial intelligence in strategic BtoB services.

Principles for Responsible Investment: Finally, in August 2020, confirming its ambitions for ESG integration, Sienna Capital became a signatory (www.pri.org).

Credit ratings: recognition for solid fundamentals as a long-term, engaged investor

In September 2020, rating agencies S&P and Moody's assigned GBL long-term credit ratings of A+ and A1 respectively with a "stable" outlook.

In October 2020, S&P and Moody's assigned credit ratings of A+ and A1 respectively to the institutional bonds issued by GBL in 2017 and 2018 and maturing in 2024 and 2025.

Financing: success of EUR 450 million exchangeable bond issuance

On October 1, 2020, GBL (the "Guarantor") announced the completion of an offering by its fully-owned subsidiary Oliver Capital of EUR 450 million of bonds (the "Bonds") **exchangeable into existing no-par value ordinary bearer shares of GEA Group AG** ("GEA" or the "Company") guaranteed by GBL. This issuance initially relates to approximately 11.3 million GEA shares representing approximately 6.2% of the share capital of the Company and approximately 73.3% of the GEA shares held directly or indirectly by the Guarantor as of the date of the placement. The Bonds will not bear interest and will mature on December 29, 2023, except in case of early redemption. The Bonds have been issued at an issue price of 102.00% of their principal amount and will be redeemed at their principal amount at maturity, corresponding to an annual gross yield to maturity of - 0.61%. The proceeds of the offering will be used for GBL's general corporate purposes.

Share buybacks: acceleration in the context of a widening discount

The Board of Directors meeting held on September 19, 2019 authorized a second share buyback program of up to EUR 250 million. Pursuant to this authorization, GBL has acquired, directly and through its subsidiaries, 3,390,804 GBL shares, representing 2.10% of the issued capital and valued at EUR 280 million as of December 31, 2020. This buyback tranche has been fully executed.

The Board of Directors meeting held on September 17, 2020 authorized an additional share buyback program of up to EUR 250 million. This authorization is valid until April 2025. Pursuant to this authorization, GBL has acquired, directly and through its subsidiaries, 204,064 GBL shares, representing 0.13% of the issued capital and valued at EUR 17 million as of December 31, 2020. This authorization has been 6.7% executed as of December 31, 2020.

ESG: strengthening our ambitions

In 2020 GBL accelerated the implementation of its ESG ambitions:

- **Sharper expertise:** François Perrin joined GBL in September 2020 as Head of ESG. He brings more than 25 years of experience and financial integration in ESG.
- **Ongoing climate commitment:** GBL was awarded the climate-neutral corporate label in 2020. Moreover, GBL initiated a three-year program to analyze the climate change impact of its portfolio companies. In this context, three of our portfolio companies, representing more than 98% of the carbon emissions in GBL's portfolio, were reviewed in 2020.
- **Development of our partner network:** GBL became a signatory of the CDP (formerly the "Carbon Disclosure Project").
- **ESG integration:** Since 2020, GBL has been licensed and applies the standard proposed by the Sustainability Accounting Standards Board (SASB Materiality Map® General Issue Categories) and is continuing its ESG integration efforts as, for example, with the deployment of a proprietary ESG rating tool for any new investment.
- **Continuous ratings improvement:** A rating with MSCI (vs. BBB in 2019) and 12.9 "low risk" score from Sustainalytics (vs. 13.9 "low risk" in 2019).

Governance: simplification of shareholding structure

In March 2020, our controlling shareholder, Parjointco Switzerland S.A. (itself controlled by Parjointco S.A.), launched a project to simplify the structure of its GBL holding, offering GBL shares to all Pargesa Holding S.A. minority shareholders ("The Offer"¹):

- success of the Offer declared on June 9, 2020;
- de facto control over GBL retained by the Desmarais and Frère family groups (through their Parjointco S.A. control mechanism) via a holding of 28.23% of GBL's capital and 43.23% of the voting rights;
- increased free float from 50% to 72% expected to have a positive impact on the liquidity of GBL shares.

¹ All press releases related to the Offer are available on the website: <https://www.parjointco.ch/titres/exchange-offre-offre-dechange/>

1.2. Net asset value

As of December 31, 2020, GBL's **net asset value** amounts to EUR 20.5 billion (EUR 127.03 per share) compared to EUR 20.3 billion (EUR 126.11 per share) at year-end 2019, i.e. an increase by 0.7% (EUR 0.92 per share). Relative to the stock price of EUR 82.52, the discount as of end of December 2020 stands at 35.0%, a 9.5% increase compared to year-end 2019.

	December 31, 2020			December 31, 2019		
	% in capital	Stock price ¹	(EUR million)	% in capital	Stock price ¹	(EUR million)
Listed and private assets			18,818.5			18,841.6
adidas	6.84	297.90	4,085.6	6.80	289.80	3,951.3
SGS	18.93	2,670	3,539.5	16.75	2,651	3,094.5
Pernod Ricard	7.60	156.80	3,119.2	7.49	159.40	3,170.9
LafargeHolcim	7.57	48.62	2,099.9	7.57	53.70	2,308.2
Imerys	54.64	38.66	1,794.2	53.99	37.68	1,617.2
Umicore	18.02	39.29	1,744.2	17.99	43.36	1,922.3
Webhelp	61.45		1,043.8	64.72		866.7
Mowi	5.85	191.00	551.7	0.84	228.20	100.1
GEA	8.51	29.28	449.7	8.51	29.48	452.7
Ontex	19.98	11.00	181.0	19.98	18.75	308.5
Parques Reunidos	23.00		106.3	23.00		235.3
Total	0.01	35.30	9.4	0.62	49.20	797.6
Other			94.0			16.3
Sienna Capital			2,521.1			1,785.0
Portfolio			21,339.5			20,626.6
Treasury shares			721.4			490.4
Gross debt			(2,285.8)			(2,601.7)
Cash and cash equivalents			722.7			1,834.1
Net asset value (global)			20,497.9			20,349.4
Net asset value (EUR p.s.) ²			127.03			126.11
Stock price (EUR p.s.)			82.52			93.96
Discount			35.0%			25.5%

¹ Closing stock price in EUR except for SGS and LafargeHolcim in CHF and Mowi in NOK

² Based on 161,358,287 shares

1.3. Financial position

Net debt increased from EUR 768 million as of December 31, 2019 to EUR 1,563 million as of December 31, 2020. This increase, detailed in the following table, notably takes into account the maturity of the prepaid forward sales of Total shares for EUR 771 million, other divestments of EUR 323 million and cash earnings (EUR 440 million), these flows being partially offset by investments (primarily Sienna Capital, Mowi, SGS and GBL) for EUR 1,756 million and the dividend distribution of EUR 508 million:

EUR million	Gross cash	Gross debt	Net debt
Position as of December 31, 2019	1,834.1	(2,601.7)	(767.7)
Cash earnings	439.6		439.6
Dividend distribution	(508.3)		(508.3)
Investments:	(1,756.1)		(1,756.1)
<i>Sienna Capital</i>	(425.5)		(425.5)
<i>Mowi</i>	(416.2)		(416.2)
<i>SGS</i>	(373.6)		(373.6)
<i>GBL</i>	(261.5)		(261.5)
<i>Imerys</i>	(73.7)		(73.7)
<i>adidas</i>	(13.9)		(13.9)
<i>Umicore</i>	(2.5)		(2.5)
<i>Other</i>	(189.2)		(189.2)
Divestments:	322.6	771.3	1,093.9
<i>Total</i>	-	771.3	771.3
<i>Sienna Capital</i>	129.7		129.7
<i>Webhelp</i>	41.5		41.5
<i>Other</i>	151.4		151.4
Bank financing	5.3	(5.3)	-
Exchangeable bonds	455.7	(450.0)	5.7
Other	(70.3)		(70.3)
Position as of December 31, 2020	722.7	(2,285.8)	(1,563.1)

Relative to the portfolio's value, the net debt is at 7.3% as of December 31, 2020 and breaks down as follows:

EUR million	December 31, 2020	December 31, 2019
Institutional bonds	(1,000.0)	(1,000.0)
Exchangeable bonds into LafargeHolcim shares	(750.0)	(750.0)
Exchangeable bonds into GEA shares	(450.0)	-
Debt related to the prepaid forward sales of Total shares	-	(771.3)
Other	(85.8)	(80.5)
Gross debt	(2,285.8)	(2,601.7)
Gross cash (excluding treasury shares)	722.7	1,834.1
(Net debt) / Net cash	(1,563.1)	(767.7)

The weighted average maturity of the gross debt is 3.3 years at the end of December 2020 (4.2 years at year-end 2019¹).

As of December 31, 2020, committed credit lines amount to EUR 2,150 million (fully undrawn) and mature over the 2024-26 period.

The liquidity profile amounts to EUR 2,873 million at the end of December 2020 (taking into account gross cash and the undrawn amount under the committed credit lines), compared with EUR 3,984 million at the end of December 2019.

¹ Excluding debt related to the prepaid forward sales of Total shares maturing in January 2020; 3.0 years including these forward sales

This position does not include the company's commitments with respect to (i) Sienna Capital, which total EUR 826 million at the end of December 2020 (EUR 466 million as of December 31, 2019) and (ii) the debt toward Webhelp's minority shareholders which is valued at EUR 800 million at the end of December 2020 (EUR 475 million as of December 31, 2019).

Finally, as of December 31, 2020, the 8,749,816 treasury shares represent 5.42% of the issued capital and are valued at EUR 721 million, to be compared respectively with 3.25% and EUR 490 million as of December 31, 2019.

2. Consolidated results (economic presentation)¹

EUR million Group's share	December 31, 2020					December 31, 2019
	Cash earnings	Mark to market and other non-cash items	Operating companies (associated or consolidated) and Sienna Capital	Eliminations, capital gains, impairments and reversals	Consolidated	Consolidated
Profit (loss) of associates and consolidated operating companies	-	-	8.7	-	8.7	0.4
Net dividends from investments	411.1	(8.9)	-	(89.2)	312.9	508.3
Interest income (expenses)	34.6	(0.5)	(58.3)	-	(24.2)	4.0
Other financial income (expenses)	27.3	49.6	181.4	(19.3)	239.0	138.6
Other operating income (expenses)	(32.5)	(0.3)	(112.8)	-	(145.6)	(62.1)
Gains (losses) from disposals, impairments and reversal of non-current assets	-	-	(2.2)	(3.7)	1.5	115.6
Taxes	(0.8)	-	(0.4)	-	(1.3)	(0.2)
IFRS consolidated net result 2020	439.6	39.8	16.4	(104.9)	391.0	
IFRS consolidated net result 2019	595.3	(13.2)	230.9	(108.3)		704.7

The **consolidated net result, group's share**, as of December 31, 2020, stands at EUR 391 million, compared with EUR 705 million as of December 31, 2019.

This result is primarily driven by:

- the net dividends from investments for EUR 313 million;
- Sienna Capital's contribution of EUR 332 million, which includes the change in fair value of non-consolidated or non-equity-accounted funds of EUR 392 million;
- Webhelp's contribution of EUR - 259 million, including the change in debt of minority shareholders of EUR - 283 million.

2.1. Cash earnings (EUR 440 million compared with EUR 595 million)

EUR million	December 31, 2020	December 31, 2019
Net dividends from investments	411.1	595.0
Interest income (expenses)	34.6	15.8
<i>Sienna Capital interests</i>	58.3	11.9
<i>Other interest income (expenses)</i>	(23.7)	3.9
Other financial income (expenses)	27.3	20.4
Other operating income (expenses)	(32.5)	(35.9)
Taxes	(0.8)	(0.1)
Total	439.6	595.3

¹The Board, meeting March 11, 2021, approved GBL's 2020 IFRS audited consolidated financial statements. Deloitte confirmed that the fieldwork related to the audit of the consolidated financial statements of GBL and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, is substantially completed. Deloitte confirmed that the financial information shown in this press release requires no comments on their part and is in agreement with the consolidated financial statements of the group. The complete audit report related to the audit on the consolidated financial statements will be shown in the 2020 Annual Report.

Net dividends from investments received as of December 31, 2020 were down compared to 2019, notably following the absence or decline in dividends from adidas, Umicore and Ontex given the sanitary crisis.

EUR million	December 31, 2020	December 31, 2019
SGS	107.8	87.2
Imerys	89.2	92.1
LafargeHolcim	88.4	110.7
Pernod Ricard	52.9	62.1
GEA	13.1	13.1
Umicore	11.1	34.3
Total	9.6	26.7
Mowi	1.1	4.6
adidas	-	42.8
Ontex	-	6.7
Parques Reunidos	-	4.2
Reimbursements of withholding taxes	38,0	107.4
Other	-	3.1
Total	411.1	595.0

SGS distributed an annual dividend of CHF 80.00 per share (CHF 78.00 in 2019).

Imerys proposed at its Annual Shareholders' Meeting on May 4, 2020, a dividend for the 2019 financial year of EUR 1.72 per share (EUR 2.15 in 2019), with full or partial payment in new shares. GBL opted to be paid in shares.

LafargeHolcim distributed a dividend of CHF 2.00 per share for 2019 (CHF 2.00 the previous year).

Pernod Ricard declared an interim dividend of EUR 1.18 per share in the second quarter of 2020 (equal to the prior year), and paid the balance during the fourth quarter (EUR 1.48, compared with EUR 1.94 in 2019).

GEA proposed at its Annual Shareholder Meeting on November 26, 2020 a dividend of EUR 0.85 for the 2019 financial year (EUR 0.85 in 2019 for the 2018 financial year), of which EUR 0.42 per share had already been paid in the second quarter of 2020 (EUR 6 million).

Umicore approved during the third quarter of 2020 an interim dividend of EUR 0.25 per share. At December 31, 2019, Umicore's contribution to cash earnings of EUR 34 million included the balance of its 2018 dividend (EUR 0.40) and the 2019 interim dividend of EUR 0.375.

Total detached on December 31, 2020 the second and third quarterly interim dividends of 2019, as well as the balance of the 2019 dividend and the first quarterly interim dividend of 2020, i.e. EUR 0.66, EUR 0.68, EUR 0.68 and EUR 0.66 per share respectively.

Mowi paid in 2020 a dividend of NOK 2.60 per share.

In 2020, **reimbursements** made by the French tax authorities **of withholding taxes** which had been applied to ENGIE and Total dividends received in 2008 and between 2016 and 2018 (EUR 38 million). In 2019, this item included reimbursements made by the French tax authorities of withholding taxes which had been applied to ENGIE and Total dividends received between 2013 and 2016 (EUR 107 million).

Net interest income (expenses) (EUR 35 million) mainly include (i) interest income from Sienna Capital (EUR 58 million compared with EUR 12 million in 2019) (ii) the default interest on the withholding taxes reimbursed by the French tax authorities on Total and ENGIE dividends (EUR 2 million compared with EUR 19 million in 2019), (iii) the interest expenses related to the institutional bonds issued in 2017 and 2018 (EUR - 17 million, identical to 2019) and (iv) interest on cash holdings (EUR - 6 million compared to EUR 0 million in 2019).

Other financial income (expenses) (EUR 27 million) mainly comprises (i) dividends collected on treasury shares for EUR 19 million (EUR 11 million in 2019), (ii) yield enhancement income of EUR 14 million (EUR 9 million in 2019) and (iii) realized exchange gains for EUR 1 million (EUR 6 million in 2019).

Other operating income (expenses) amounted to EUR - 32 million as of end of December 2020, having decreased compared with 2019.

2.2. Mark to market and other non-cash items (EUR 40 million compared with EUR - 13 million)

EUR million	December 31, 2020	December 31, 2019
Net dividends from investments	(8.9)	9.6
Interest income (expenses)	(0.5)	(0.1)
Other financial income (expenses)	49.6	(22.1)
Other operating income (expenses)	(0.3)	(0.7)
Total	39.8	(13.2)

Net dividends from investments correspond mainly to the reversal of the provision for the second quarterly interim dividend to be received from Total, accrued at end 2019 in this section but paid beginning of 2020.

Other financial income (expenses) notably include:

- the mark to market of the derivative component associated to the exchangeable bonds into LafargeHolcim shares (EUR 38 million compared with EUR - 32 million in 2019) and to exchangeable bonds into GEA shares (EUR 7 million vs. EUR 0 million in 2019).

This non-monetary gain includes the change in the value of the call options on underlying securities implicitly embedded in the exchangeable bonds into LafargeHolcim shares issued in September 2019 and in the exchangeable bonds into GEA shares since their issue in October 2020, primarily attributable to the change in LafargeHolcim and GEA's stock prices since the issuance of these bonds. The result as of December 31, 2020 illustrates the accounting asymmetry and volatility of periodic results, which will persist throughout the lifetime of the exchangeable bonds.

- the mark to market of the trading portfolio and the derivative instruments (EUR 5 million compared with EUR 4 million in 2019).

In 2019, this section also included non-realized exchange differences of EUR 6 million.

2.3. Operating companies (associates or consolidated) and Sienna Capital (EUR 16 million compared with EUR 231 million)

EUR million	December 31, 2020	December 31, 2019
Profit (loss) of associates and consolidated operating companies	8.7	0.4
Interest income (expenses)	(58.3)	(11.7)
Other financial income (expenses)	181.4	152.3
<i>Sienna Capital</i>	390.7	152.3
<i>Webhelp</i>	(209.3)	-
Other operating income (expenses)	(112.8)	(25.6)
<i>Sienna Capital</i>	(36.3)	(25.6)
<i>Webhelp</i>	(73.3)	-
<i>Sapiens</i>	(3.2)	-
Gains (losses) on disposals, impairments and reversals of non-current assets	(2.2)	115.6
Taxes	(0.4)	(0.1)
Total	16.4	230.9

Net profit (loss) of associates and consolidated operating companies amounts to EUR 9 million compared with EUR 0 million in 2019:

EUR million	December 31, 2020	December 31, 2019
Imerys	16.5	65.9
Webhelp	26.5	(19.6)
Piolin II/Parques Reunidos	(72.4)	(85.8)
Sienna Capital	38.2	40.0
<i>ECP IV</i>	23.0	3.3
<i>Mérieux Participations 2</i>	10.1	2.7
<i>Backed 1, Backed 2 and Backed Encore 1</i>	8.5	4.3
<i>Operating subsidiaries of ECP III</i>	(3.3)	3.5
<i>ECP I & II</i>	(0.1)	(4.8)
<i>Avanti Acquisition Corp.</i>	(0.0)	-
<i>Kartesia</i>	-	31.1
Total	8.7	0.4

Imerys (EUR 16 million compared with EUR 66 million)

Net current income decreased 39.7% to EUR 167 million as of December 31, 2020 (EUR 277 million as of December 31, 2019). The current operating income amounts to EUR 299 million (EUR 439 million as of December 31, 2019). The net result, group's share, amounts to EUR 30 million as of December 31, 2020 (EUR 121 million as of December 31, 2019).

Imerys contributes EUR 16 million to GBL's result in 2020 (EUR 66 million in 2019), reflecting the variation in net income, group's share, and the 54.75% consolidation rate for Imerys in 2020 (54.37% in 2019).

The press release relating to Imerys' results as of December 31, 2020 is available at www.imerys.com.

Webhelp (EUR 26 million compared with EUR - 20 million)

At December 31, 2020, Webhelp's contribution to GBL's result equaled EUR 26 million, based on a result of EUR 44 million as of December 31, 2020, a consolidation rate of 60.08%.

At December 31, 2019, a contribution of EUR - 20 million, mainly represented GBL's share in transaction costs linked to the acquisition.

Piolin II/Parques Reunidos (EUR - 72 million compared with EUR - 86 million)

As of December 31, 2020, the contribution from Piolin II amounts to EUR - 72 million, considering a EUR - 314 million loss for Piolin II and a consolidation rate of 23.10%.

As of December 31, 2019, the contribution from Piolin II/Parques Reunidos of EUR - 86 million was based on:

- a EUR - 352 million loss realized by Parques Reunidos for the period from January 1, 2019 to December 31, 2019, notably impacted by significant depreciation, taking into account a consolidation rate of 21.20%, 23.34% or 23.00% over the course of the year based on changes in ownership levels.
- GBL's share of Piolin II's result for the period from September 6, 2019 to December 31, 2019, considering a 27.00% consolidation rate.

Sienna Capital (EUR 38 million compared with EUR 40 million)

Sienna Capital's contribution to GBL's results as of December 31, 2020 amounts to EUR 38 million compared with EUR 40 million in the prior year.

This result notably includes (i) the result of ECP IV (EUR 23 million in 2020 compared with EUR 3 million in 2019), (ii) the contribution of Mérieux Participations 2 (EUR 10 million in 2020 compared with EUR 3 million in 2019), (iii) contributions from Backed 1, Backed 2 and Backed Encore 1 (EUR 9 million in 2020 compared with EUR 4 million in 2019), (iv) results of operating subsidiaries of ECP III (EUR - 3 million in 2020 compared to EUR 4 million in 2019) and (v) the contributions from Ergon Capital Partners I and II (EUR 0 million in 2020 compared with EUR - 5 million in 2019).

The contribution of Sienna Capital to GBL's result at December 31, 2019 also includes the contribution from Kartesia funds (EUR 31 million in 2019), which are classified, as of year-end 2019, as *"Other capital investments."*

Net interest expense (EUR - 58 million) consists mainly of interest charges to GBL (EUR - 12 million in 2019).

Other financial income (expenses) mainly include:

- the change in fair value of Sienna Capital's funds, not consolidated or accounted for under the equity method, as in accordance with IFRS 9, for a total amount of EUR 392 million (EUR 152 million in 2019), mainly Marcho Partners (EUR 240 million vs. EUR 7 million in 2019), KKR Sigma Co-Invest II (EUR 125 million vs. EUR 50 million in 2019), Sagard funds (EUR 31 million vs. EUR 20 million in 2019), C2 Capital Partners (EUR 6 million), Ergon opseo Long Term Value Fund (EUR 5 million), BDT Capital Partners Fund II (EUR - 1 million vs. EUR 16 million in 2019), Primestone (EUR - 0 million vs. EUR 54 million in 2019) and Matador (EUR - 18 million);
- changes in debt to the minority shareholders (founders) of Webhelp for EUR - 209 million.

Other revenues and operating expenses include, in addition to overheads related to Sienna Capital's business (EUR - 36 million vs. EUR - 26 million), changes in debts recorded under Webhelp's staff incentive plan, notably including the effect of discounting and vesting (EUR - 73 million).

The **gains (losses) from disposals, impairments and reversals of non-current assets** mainly consist of the net capital gain on the disposal by ECP III of opseo (EUR 88 million) and Looping (EUR 34 million).

2.4. Eliminations, capital gains, impairments and reversals (EUR - 105 million compared with EUR - 108 million)

EUR million	December 31, 2020	December 31, 2019
Elimination of dividends (<i>Imerys, Parques Reunidos</i>)	(89.2)	(96.4)
Other financial income (expenses) (<i>GBL, other</i>)	(19.3)	(12.0)
Gains (losses) from disposals, impairments and reversal of non-current assets (<i>Other</i>)	3.7	-
Total	(104.9)	(108.3)

Net dividends from operating investments (associates or consolidated companies) are eliminated and are related as of December 31, 2020 to Imerys (EUR - 89 million). As of December 31, 2019, this heading included the elimination of dividends from Imerys and Parques Reunidos for EUR - 96 million.

Other financial income (expenses) include the elimination of the dividend on treasury shares amounting to EUR - 19 million (EUR - 11 million in 2019).

3. Consolidated results (IFRS presentation)

The following table presents GBL's IFRS income statement broken down into four sectors:

- **Holding:** consists of the parent company GBL and its subsidiaries. Its main activity is to manage investments as well as the non-consolidated operating companies and associates;
- **Imerys:** consisting of the Imerys group, a French group listed on Euronext Paris, which holds leading positions in each of its two business lines: Performance Materials and High Temperature Materials & Solutions;
- **Sapiens/Webhelp:** consisting of the Webhelp group, a non-quoted French group, specialized in customer experience and business process outsourcing as well as the investment vehicle Sapiens; and
- **Sienna Capital:** including
 - on the one hand, under investment activities, the companies Sienna Capital, Avanti Acquisition Corp., Backed 1, Backed 1 Founder, Backed 2, Backed 2 Founder, Backed Encore 1, Backed Encore 1 Founder, BDT Capital Partners Fund II, Carlyle International Energy Partners II, C2 Capital Global Export-to-China Fund, E.C.B. (Bastille)-Telenco, E.C.P. (Polaris)-Palex, ECP, ECP II, ECP IV, Ergon opseo Long Term Value Fund, Kartesia Credit Opportunities III and IV, KKR Azur Co-invest LP, KKR Rainbow Co-Invest (Asset) LP, KKR Sigma Co-Invest II, Marcho Partners, Marcho Partners Long, Matador Coinvestment, Mérieux Participations I and 2, PrimeStone, Sagard, Sagard II, Sagard 3, Sagard 4, Sagard NewGen, Sagard Santé Animale and Streetteam Software Limited;
 - on the other hand, all other consolidated activities, ECP III's operational subsidiaries (subgroups Sausalitos, Keesing, svt, Vanreusel, Indo, etc.)

The results of a sector include all the elements that are directly attributable to it.

EUR million	December 31, 2020					December 31, 2019
	Holding	Imerys	Sapiens/ Webhelp	Sienna Capital	Consolidated	Consolidated
Share of profit (loss) of associates	(72.4)	-	-	41.5	(30.9)	(49.3)
Net dividends from investments	312.9	-	-	-	312.9	508.3
Other operating income (expenses) from investing activities	(32.7)	-	(0.2)	(36.6)	(69.6)	(62.5)
Gains (losses) from disposals, impairments and reversals of non-current assets from investing activities	3.7	-	-	(2.5)	1.2	128.6
Financial income (expenses) from investing activities	91.6	-	(0.0)	332.4	424.0	143.2
Profit (loss) from investing activities	303.0	-	(0.2)	334.8	637.6	668.3
Turnover	-	3,798.5	1,636.6	480.8	5,915.9	5,037.9
Raw materials and consumables	-	(1,292.9)	(33.3)	(225.6)	(1,551.9)	(1,729.5)
Employee expenses	-	(875.2)	(1,168.8)	(113.0)	(2,157.0)	(1,163.1)
Depreciation on tangible and intangible assets	-	(342.5)	(146.1)	(49.6)	(538.2)	(432.6)
Other operating income (expenses) from operating activities	-	(1,069.1)	(228.9)	(64.5)	(1,362.4)	(1,413.3)
Gains (losses) from disposals, impairments and reversals of non-current assets from operating activities	-	(80.8)	(0.3)	(0.5)	(81.5)	(51.1)
Financial income (expenses) from operating activities	-	(61.4)	(272.0)	(18.9)	(352.4)	(82.6)
Profit (loss) from consolidated operating activities	-	76.6	(212.8)	8.8	(127.5)	165.7
Income taxes	(0.8)	(44.3)	(27.4)	(8.2)	(80.8)	(65.1)
Consolidated profit (loss) for the period	302.2	32.3	(240.5)	335.3	429.3	768.9
Attributable to the group	302.2	16.5	(259.4)	331.7	391.0	704.7
Attributable to non-controlling interests	-	15.8	18.9	3.6	38.3	64.2

EUR per share	December 31, 2020	December 31, 2019
Consolidated profit per share for the period		
Basic	2.53	4.48
Diluted	2.53	4.48

4. Dividend proposal

The Board of Directors will propose to the Ordinary General Assembly of April 27, 2021 to approve the profit allocation for the 2020 financial year, for a total amount of EUR 395.9 million, compared to EUR 508.3 million granted for the previous year. Taking into account the number of dividend-entitled shares (158,368,260¹), the distribution for the 2020 financial year would correspond to a gross dividend of EUR 2.50 per GBL share, down 20.6% from the EUR 3.15 dividend for fiscal 2019. On this basis, it would offer a dividend yield of 3.0% over the GBL share price at the end of 2020. Coupon 23 will be detached on May 4, 2021 and paid as of May 6, 2021.

5. Subsequent events

Canyon

On March 9, 2021, GBL closed the acquisition of the Canyon group, alongside (i) founder Roman Arnold, who reinvested a significant part of his proceeds and remains an important minority shareholder of the group, and (ii) the management team. GBL has invested EUR 0.4 billion. GBL controls the acquisition vehicle, holding 60% of its capital jointly with co-investors, at the closing of the acquisition.

LafargeHolcim

During the first quarter of 2021 through March 10, 2021, GBL entered into forward sales maturing on March 26, 2021 and related to a fraction of its holding in LafargeHolcim, representing 0.98% of the capital (6.0 million shares) for a net amount of EUR 285 million. These sales will generate a capital gain² of EUR 62 million. GBL's holding will decrease from 7.57% of LafargeHolcim's capital at the end of 2020 to 6.60% as a result of these disposals. As of March 10, 2021, GBL's ownership was valued at EUR 2,263 million.

Sienna Capital

In 2021, Sienna Capital closed the investment in Globality for EUR 100 million, and ECP III finalized the disposals of Keesing and svt.

Financing

On January 21, 2021, GBL placed a EUR 500 million **institutional bond**, with a 10-year maturity and a coupon of 0.125%. This issuance is intended to cover the GBL's general corporate purposes and lengthens the weighted average maturity of the gross debt. The issuance was oversubscribed more than 3.5 times by a diversified and balanced base of institutional investors. The success of this placement illustrates the market's confidence in GBL's creditworthiness.

ESG

Building on its long-standing commitment to the United Nations Global Compact and its support for the Principles for Responsible Investment, the GBL Board of Directors approved an update to the ESG Policy in March 2021. Detailing the commitments chosen for 2025-2030, this ESG Policy is another key step in our journey. Climate change, diversity, transparency and the promotion of access to sustainable finance are firmly at the heart of GBL's commitments over the period 2025-2030. More information will be available as part of our 2020 Annual Report, scheduled for release on March 26, 2021.

¹ Total number of GBL shares issued and outstanding, net of treasury shares held by Groupe Bruxelles Lambert S.A.

² No impact on GBL's consolidated net result in 2021, in accordance with IFRS 9

6. Outlook for the 2021 financial year

As from FY21 onwards, GBL will set its ordinary dividend pay-out ratio between 75% and 100% of its cash earnings, with the possibility to consider exceptional dividends in the future when and if deemed appropriate. On that basis, we will continue to deliver an attractive dividend yield to our shareholders while providing additional financial means supporting (i) the acceleration of net asset value growth initiated in the past years, (ii) our portfolio companies if needed and (iii) the execution of our share buyback program.

Our commitment towards investors remains to deliver an attractive total shareholder return outperforming our reference index over the long term, through a combination of (i) appreciation of our net asset value and (ii) a sustainable dividend.

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Corporate Information

Power Corporation of Canada

751 Victoria Square
Montréal, Québec, Canada H2Y 2J3
514-286-7400
1-800-890-7440

161 Bay Street, Suite 5000
Toronto, Ontario, Canada M5J 2S1
416-607-2250

www.powercorporation.com

This document is also available on the Corporation's website
and on SEDAR at www.sedar.com.

STOCK LISTINGS

Shares of Power Corporation of Canada are listed on the
Toronto Stock Exchange:

Subordinate Voting Shares: POW
Participating Preferred Shares: POW.PR.E

First Preferred Shares, 1986 Series: POW.PR.F
First Preferred Shares, Series A: POW.PR.A
First Preferred Shares, Series B: POW.PR.B
First Preferred Shares, Series C: POW.PR.C
First Preferred Shares, Series D: POW.PR.D
First Preferred Shares, Series G: POW.PR.G

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SHAREHOLDER SERVICES

Shareholders with questions relating to the payment of
dividends, change of address, share certificates, direct registration
and estate transfers should contact the Transfer Agent:

Computershare Investor Services Inc.
Shareholder Services
100 University Avenue, 8th Floor
Toronto, Ontario, Canada M5J 2Y1
Telephone: 1-800-564-6253 (toll-free in Canada and the U.S.)
or 514-982-7555
www.computershare.com



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