GREAT-WEST LIFECO INC.

# Management's Discussion and Analysis

For the year 2015

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FOR THE PERIOD ENDED DECEMBER 31, 2015

## DATED: FEBRUARY 11, 2016

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three and twelve months ended December 31, 2015 and includes a comparison to the corresponding periods in 2014, to the three months ended September 30, 2015, and to the Company's financial condition as at December 31, 2014. This MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's three major reportable segments: Canada, United States (U.S.) and Europe.

## BUSINESSES OF LIFECO

Lifeco has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (Great-West Financial), Putnam Investments, LLC (Putnam) and Irish Life Group Limited (Irish Life).

In Canada, Great-West Life and its operating subsidiaries, London Life and Canada Life (owned through holding companies London Insurance Group Inc. (LIG) and Canada Life Financial Corporation (CLFC) respectively), offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of Freedom 55 Financial™ and Great-West Life financial security advisors, and through a multi-channel network of brokers, advisors, managing general agencies and financial institutions.

In the U.S., Great-West Financial is a leading provider of employer-sponsored retirement savings plans in the public/non-profit and corporate sectors. Under the Empower Retirement brand name, Great-West Financial® offers employer-sponsored defined contribution plans, individual retirement accounts, enrollment services, communication materials, investment options and education services as well as fund management, investment and advisory services. 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 comprises two distinct business units: Insurance & Annuities, which offers protection and wealth management products, including payout annuity products, through subsidiaries of Canada Life in the United Kingdom, Isle of Man and Germany as well as through Irish Life in Ireland; and Reinsurance, which operates primarily in the U.S., Barbados and Ireland. Reinsurance products are provided through Canada Life, London Life and their subsidiaries.

In Asia, Putnam has a 10% interest in Nissay Asset Management (NAM), a partnership with Nippon Life Insurance Company. Putnam predominantly acts as a sub-advisor for certain retail mutual funds distributed by NAM and also manages pension fund assets for NAM clients.

Lifeco currently has no other holdings and carries on no business or activities unrelated to its holdings in Great-West Life, London Life, Canada Life, Great-West Financial, Putnam 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 consolidated financial statements for the period ended December 31, 2015.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

This MD&A may contain forward-looking statements. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and other similar expressions or negative versions thereof. These statements may include, without limitation, statements about the Company's operations, business, financial condition, expected financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future actions by the Company, including statements made with respect to the expected benefits of acquisitions and divestitures. Forward-looking statements are based on expectations, forecasts, predictions, projections and conclusions about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and the reader is cautioned that actual events and results could differ materially from those expressed or implied by forward-looking statements. Material factors and assumptions that were applied in formulating the forward-looking information contained herein include the assumption that the business and economic conditions affecting the Company's operations will continue substantially in their current state, including, without limitation, with respect to customer behaviour, the Company's reputation, market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, reinsurance, arrangements, liquidity requirements, capital requirements, credit ratings, taxes, inflation, interest and foreign exchange rates, investment values, hedging activities, global equity and capital markets, business competition and other general economic, political and market factors in North America and internationally. Many of these assumptions are based on factors and events that are not within the control of the Company and there is no assurance that they will prove to be correct. Other important factors and assumptions that could cause actual results to differ materially from those contained in forward-looking statements include customer responses to new products, impairments of goodwill and other intangible assets, the Company's ability to execute strategic plans and changes to strategic plans, technological changes, breaches or failure of information systems and security (including cyber attacks), payments required under investment products, changes in local and international laws and regulations, changes in accounting policies and the effect of applying future accounting policy changes, unexpected judicial or regulatory proceedings, catastrophic events, continuity and availability of personnel and third party service providers, the Company's ability to complete strategic transactions and integrate acquisitions and unplanned material changes to the Company's facilities, customer and employee relations or credit arrangements. The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in other filings with securities regulators, including factors set out in the Company's 2015 Annual MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates", 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 statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

**CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES**

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

## CONSOLIDATED OPERATING RESULTS

**Selected consolidated financial information**
(in Canadian $ millions, except for per share amounts)

| | As at or for the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| **Premiums and deposits:** | | | | | |
| **Amounts reported in the financial statements** | | | | | |
| Net premium income (Life insurance, guaranteed annuities and insured health products) | **$ 6,162** | $ 5,891 | $ 5,501 | **$ 24,501** | $ 21,222 |
| Policyholder deposits (segregated funds): | | | | | |
| Individual products | **3,814** | 3,157 | 3,185 | **12,983** | 11,826 |
| Group products | **2,001** | 2,738 | 1,955 | **8,609** | 9,083 |
| **Premiums and deposits reported in the financial statements** | **11,977** | 11,786 | 10,641 | **46,093** | 42,131 |
| Self-funded premium equivalents (Administrative services only contracts)(1) | **665** | 639 | 654 | **2,625** | 2,603 |
| Proprietary mutual funds and institutional deposits(1) | **15,480** | 16,807 | 12,729 | **56,257** | 45,306 |
| **Total premiums and deposits(1)** | **28,122** | 29,232 | 24,024 | **104,975** | 90,040 |
| **Fee and other income** | **1,333** | 1,241 | 1,161 | **5,058** | 4,422 |
| **Paid or credited to policyholders(2)** | **5,532** | 5,833 | 8,125 | **22,842** | 29,160 |
| **Earnings** | | | | | |
| Net earnings - common shareholders | **$ 683** | $ 720 | $ 657 | **$ 2,762** | $ 2,546 |
| **Per common share** | | | | | |
| Basic earnings | **0.688** | 0.724 | 0.658 | **2.774** | 2.549 |
| Dividends paid | **0.326** | 0.326 | 0.3075 | **1.304** | 1.230 |
| Book value | **20.07** | 19.40 | 16.80 | | |
| **Return on common shareholders' equity(3)** | | | | | |
| Net earnings | **14.7%** | 15.2% | 15.7% | | |
| **Total assets per financial statements** | **$ 399,935** | $ 389,935 | $ 356,709 | | |
| Proprietary mutual funds and institutional net assets(4) | **252,480** | 239,050 | 216,271 | | |
| **Total assets under management(4)** | **652,415** | 628,985 | 572,980 | | |
| Other assets under administration(5) | **560,102** | 524,813 | 490,353 | | |
| **Total assets under administration** | **$ 1,212,517** | $ 1,153,798 | $ 1,063,333 | | |
| **Total equity** | **$ 25,260** | $ 24,534 | $ 21,897 | | |

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

(2) Paid or credited to policyholders includes the impact of changes in fair values of assets supporting insurance and investment contract liabilities.

(3) Return on common shareholders' equity is detailed within the "Capital Allocation Methodology" section.

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

(5) Other assets under administration (a non-IFRS financial measure) includes assets where the Company only provides administration services for which the Company earns fee and other income. These assets are beneficially owned by clients and the Company does not direct the investing activities. Services provided relating to assets under administration includes 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.

## LIFECO 2015 HIGHLIGHTS

### *Solid financial performance*

- For the twelve months ended December 31, 2015, net earnings attributable to common shareholders grew to $2,762 million, an increase of 8.5% from the previous year, reflecting earnings growth in the Europe and U.S. segments.
- In 2015, Lifeco's quarterly common share dividend increased 6% to $0.3260 per share.
- The Company's financial leverage ratio has been maintained at less than 30% during 2015, consistent with credit rating agencies' targets for highly rated entities, and provides the Company with financial flexibility to invest in organic growth and acquisition strategies.
- The Company's strong capital position is evidenced by a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio at December 31, 2015 of 238% for The Great-West Life Assurance Company, Lifeco's major Canadian operating subsidiary.
- Activities to ensure readiness for the new Solvency II regulations, effective January 1, 2016, have been a key focus of the Company's European regulated insurance and reinsurance businesses during 2015. The Company is well positioned for the new regulatory environment and will continue to work in cooperation with the European regulators throughout 2016.

### *Strategic growth supplemented by acquisition*

- During 2015, the Company, through its wholly owned subsidiary Canada Life Group, completed two acquisitions in its Europe segment. In the first quarter of 2015, the Company acquired the assets and liabilities associated with The Equitable Life Assurance Society's (Equitable Life) annuity business in the U.K., subject to final court approval in 2016. In the third quarter of 2015, the Company completed the acquisition of Legal & General International (Ireland) Limited (LGII), a provider of investment and wealth management solutions for high-net-worth individuals in the U.K. These acquisitions will serve to strengthen the Company's position in the U.K. market.
- Also in the Europe segment, policy migration activities for the Irish Life integration successfully concluded during 2015. The Company now expects to realize €48 million of annualized synergies from the acquisition of Irish Life, exceeding the annualized synergy target of €40 million by 20%.
- In the U.S. segment, the combination of three established retirement businesses under the Empower Retirement brand resulted in strong growth in 2015 creating the second largest recordkeeping provider in the U.S. The number of participant accounts grew from 7.1 million at December 31, 2014 to over 7.5 million at December 31, 2015. Empower Retirement sales in 2015 were US$42.2 billion, over 220% higher than 2014.

  Beginning in 2015, the Company anticipates investing a total of approximately US$150 million over the next several years to improve the client-facing experience and streamline back-office processing. On a year-to-date basis, this investment in Empower Retirement strategic and business development reduced net earnings in 2015 by US$34 million. In 2016, this multi-year investment is expected to decrease net earnings by US$20 million.

  While investing in the Empower Retirement business, the Company has set an annual cost savings target of US$40 million to US$50 million pre-tax which is expected to be achieved through efficiencies from the conversion of businesses onto a single back-office platform, increased utilization of Great-West Global operations in India and scale-driven cost improvements. Integration activities are on track and are expected to be completed by the second quarter of 2017 with the annual reduction of operating costs fully reflected upon the completion of the business transformation in the next three to four years.

- In the Canada segment, the Company focused efforts on digital services, product development and service enhancements in 2015. A pilot program for an innovative health and wellness platform to help improve health outcomes for plan members and reduce associated health plan costs for plan sponsors was launched. The HelloLife™ retirement program was introduced allowing the Company's financial security advisors to help individuals create a retirement program tailored to their specific needs. As well, a new Freedom 55 Financial™ website and online advertising are repositioning the brand to help Canadians achieve financial success, with a focus on young people without a financial security advisor or financial security plan.

***Outlook for 2016***

- Lifeco is well positioned to invest in growth through acquisitions, new products and technology while maintaining a strong risk and expense discipline to deliver long-term value to its customers and shareholders.
- In Europe, growth opportunities through acquisition and product expansion will continue to be explored with a focus on expanding retirement and pension related products and developing new and innovative ways to help customers achieve financial security.
- In the U.S., investments continue to be made to streamline back office processes, integrate recordkeeping and retirement plan services businesses and position Empower Retirement for significant growth and consolidation opportunities.
- In Canada, the focus is on protecting and extending leadership positions through organic growth by investing in digital technology, product development and service enhancements in support of a multi-year strategy and positively impacting the financial, mental and physical wellbeing of Canadians.

## NET EARNINGS

Consolidated net earnings of Lifeco include the net earnings of Great-West Life and its operating subsidiaries, London Life, Canada Life and Irish Life; Great-West Financial and Putnam, together with Lifeco's Corporate operating results.

Lifeco's net earnings attributable to common shareholders for the three month period ended December 31, 2015 were $683 million compared to $657 million a year ago and $720 million in the previous quarter. On a per share basis, this represents $0.688 per common share ($0.686 diluted) for the fourth quarter of 2015 compared to $0.658 per common share ($0.657 diluted) a year ago and $0.724 per common share ($0.722 diluted) in the previous quarter.

For the twelve months ended December 31, 2015, Lifeco's net earnings attributable to common shareholders were $2,762 million compared to $2,546 million a year ago, an increase of 8.5%. On a per share basis, this represents $2.774 per common share ($2.768 diluted) for 2015 compared to $2.549 per common share ($2.546 diluted) a year ago.

| **Net earnings - common shareholders** | **For the three months ended** | | | **For the twelve months ended** | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| **Canada** | | | | | |
| Individual Insurance | **$ 51** | $ 91 | $ 120 | **$ 307** | $ 395 |
| Wealth Management | **119** | 116 | 69 | **479** | 383 |
| Group Insurance | **74** | 153 | 96 | **432** | 422 |
| Canada Corporate | **18** | (34) | 15 | **(23)** | 28 |
| | **262** | 326 | 300 | **1,195** | 1,228 |
| **United States** | | | | | |
| Financial Services | **86** | 106 | 93 | **384** | 382 |
| Asset Management | **41** | (8) | (1) | **32** | (71) |
| U.S. Corporate | **(2)** | (2) | (3) | **(7)** | (5) |
| | **125** | 96 | 89 | **409** | 306 |
| **Europe** | | | | | |
| Insurance & Annuities | **234** | 229 | 218 | **886** | 810 |
| Reinsurance | **73** | 71 | 71 | **313** | 265 |
| Europe Corporate | **(4)** | (4) | (15) | **(25)** | (37) |
| | **303** | 296 | 274 | **1,174** | 1,038 |
| **Lifeco Corporate** | **(7)** | 2 | (6) | **(16)** | (26) |
| **Net earnings - common shareholders** | **$ 683** | $ 720 | $ 657 | **$ 2,762** | $ 2,546 |

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.

## MARKET IMPACTS

Interest Rate Environment

Interest rates in countries where the Company operates mostly increased during 2015, except in Canada where rates decreased. The net change in interest rates did not impact the range of interest rate scenarios tested through the valuation process. The net change in interest rates during 2015 resulted in movements in the regulatory capital required, which reduced Great-West Life's MCCSR ratio by 3 percentage points and had no material impact on net earnings.

In order to mitigate the Company's exposure to interest rate fluctuations, the Company follows disciplined processes for managing the matching of the timing of asset and liability cash flows. As a result, the impact of changes in fair values of bonds backing insurance and investment contract liabilities recorded through profit or loss is mostly offset by a corresponding change in the insurance and investment contract liabilities.

The Company's sensitivity to interest rate fluctuations is detailed in the "Accounting Policies - Summary of Critical Accounting Estimates" section.

Equity Markets

In the geographies where the Company operates, average equity market levels in the fourth quarter of 2015 and year-to-date were mixed compared to the same periods in 2014; however, they ended the quarter at higher market levels compared to September 30, 2015, except in Canada. The change in average market levels and market volatility during the quarter had a positive impact on net earnings of approximately $9 million (negative impact of $12 million year-to-date), relative to the Company's expectation, related to asset-based fee income and the costs related to guarantees of death, maturity or income benefits within certain wealth management products offered by the Company. In addition, equity market levels at the end of the period positively impacted net earnings by approximately $6 million ($5 million year-to-date) related to seed money investments held in the Asset Management and Canada Corporate business units.

Comparing the fourth quarter of 2015 to the fourth quarter of 2014, average equity market levels were up by 2% in the U.S. (as measured by S&P 500) and by 7% in broader Europe (as measured by Eurostoxx 50); however, they were down by 8% in Canada (as measured by S&P TSX) and by 4% in the U.K. (as measured by FTSE 100). The major equity indices finished the fourth quarter up 6% in the U.S., 5% in broader Europe, 3% in the U.K. and down 2% in Canada compared to September 30, 2015.

Foreign Currency

Throughout this document, a number of terms are used to highlight the impact of foreign exchange on results, such as: "constant currency basis", "impact of currency movement" and "effect of currency translation fluctuations". These measures have been calculated using the average or period end rates, as appropriate, in effect at the date of the comparative period. This non-IFRS measure provides useful information as it facilitates the comparability of results between periods.

During the fourth quarter of 2015, the average currency translation rate of the U.S. dollar, the British pound and the euro increased compared to the fourth quarter of 2014. The overall impact of currency movement on the Company's net earnings for the three month period ended December 31, 2015 was an increase of $41 million ($108 million year-to-date) compared to translation rates a year ago.

From September 30, 2015 to December 31, 2015, the market rates at the end of the reporting period used to translate U.S. dollar and British pound assets and liabilities to the Canadian dollar increased, while the end-of-period market rate for euro assets and liabilities was consistent with the previous quarter. The movements in end-of-period market rates resulted in unrealized foreign exchange gains from the translation of foreign operations, including related hedging activities, of $291 million in-quarter ($2,017 million net unrealized gains year-to-date) recorded in other comprehensive income.

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)**

| | For the three months ended December 31, 2015 | | | For the twelve months ended December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **Impairment (charges) / recoveries** | **Changes in future credit losses in insurance contract liabilities** | **Total** | **Impairment (charges) / recoveries** | **Changes in future credit losses in insurance contract liabilities** | **Total** |
| Canada | $ — | $ (1) | $ (1) | $ — | $ 1 | $ 1 |
| United States | (2) | (2) | (4) | (2) | (4) | (6) |
| Europe | 1 | (22) | (21) | 9 | (52) | (43) |
| **Total** | **$ (1)** | **$ (25)** | **$ (26)** | **$ 7** | **$ (55)** | **$ (48)** |

In the fourth quarter of 2015, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholders’ net earnings by $1 million ($1 million net recovery in the fourth quarter of 2014). Changes in credit ratings in the Company's bond portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $25 million in the quarter ($20 million net charge in the fourth quarter of 2014).

For the twelve months ended December 31, 2015, the Company experienced net recoveries on impaired investments, including dispositions, which positively impacted common shareholders’ net earnings by $7 million ($22 million net recovery in 2014). Changes in credit ratings in the Company's bond portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $55 million year-to-date ($36 million net charge year-to-date in 2014).

**ACTUARIAL ASSUMPTION CHANGES**

During the fourth quarter of 2015, the Company updated a number of assumptions resulting in a positive net earnings impact of $97 million, compared to $176 million for the same quarter last year and $123 million for the previous quarter. In Europe, net earnings were positively impacted by actuarial assumption changes of $68 million, primarily due to updated economic and annuitant mortality assumptions, partially offset by updated expense assumptions, modeling refinements and updated morbidity assumptions. In Canada, updated mortality and economic assumptions, partially offset by updated policyholder behaviour assumptions and modeling refinements were the primary drivers of the $30 million positive net earnings impact. Net earnings in the U.S. were negatively impacted by $1 million primarily due to modeling refinements. Included in the 2014 net earnings impact of $176 million was $60 million relating to the impact of revised Standards of Practice issued by the Canadian Actuarial Standards Board in 2014.

For the twelve months ended December 31, 2015, assumption changes resulted in a positive net earnings impact of $376 million as compared to $339 million for the same period in 2014.

## PREMIUMS AND DEPOSITS AND SALES

Total premiums and deposits (a non-IFRS financial measure) include premiums on risk-based insurance and annuity products (as defined under IFRS), premium equivalents on self-funded group insurance administrative services only (ASO) contracts, deposits on individual and group segregated fund products as well as deposits on proprietary mutual funds and institutional accounts. This measure provides an indicator of top line growth.

Sales (a non-IFRS financial measure) for risk-based insurance and annuity products 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. This measure provides an indicator of new business growth.

**Premiums and deposits**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| **Canada** | | | | | |
| Individual Insurance | **$ 1,304** | $ 1,220 | $ 1,202 | **$ 4,894** | $ 4,518 |
| Wealth Management | **2,804** | 2,504 | 2,741 | **10,832** | 11,914 |
| Group Insurance | **2,002** | 1,948 | 1,931 | **7,838** | 7,708 |
| | **6,110** | 5,672 | 5,874 | **23,564** | 24,140 |
| **United States** | | | | | |
| Financial Services | **5,087** | 3,477 | 2,268 | **13,798** | 9,028 |
| Asset Management | **10,869** | 10,242 | 10,542 | **39,850** | 37,513 |
| | **15,956** | 13,719 | 12,810 | **53,648** | 46,541 |
| **Europe** | | | | | |
| Insurance & Annuities | **4,497** | 8,354 | 3,875 | **22,127** | 14,931 |
| Reinsurance | **1,559** | 1,487 | 1,465 | **5,636** | 4,428 |
| | **6,056** | 9,841 | 5,340 | **27,763** | 19,359 |
| **Total premiums and deposits** | **$ 28,122** | $ 29,232 | $ 24,024 | **$ 104,975** | $ 90,040 |

**Sales**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Canada | **$ 3,492** | $ 2,944 | $ 3,311 | **$ 12,635** | $ 12,164 |
| United States | **31,630** | 25,831 | 15,105 | **95,715** | 54,430 |
| Europe - Insurance & Annuities | **3,917** | 7,716 | 3,155 | **19,485** | 12,388 |
| **Total sales** | **$ 39,039** | $ 36,491 | $ 21,571 | **$ 127,835** | $ 78,982 |

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.

## NET INVESTMENT INCOME

| Net investment income | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Investment income earned (net of investment properties expenses) | **$ 1,623** | $ 1,555 | $ 1,511 | **$ 6,168** | $ 6,025 |
| Allowances for credit losses on loans and receivables | **(1)** | — | (8) | **—** | (17) |
| Net realized gains | **78** | 19 | 43 | **213** | 101 |
| Regular investment income | **1,700** | 1,574 | 1,546 | **6,381** | 6,109 |
| Investment expenses | **(30)** | (28) | (30) | **(110)** | (99) |
| Regular net investment income | **1,670** | 1,546 | 1,516 | **6,271** | 6,010 |
| Changes in fair value through profit or loss | **(844)** | (82) | 2,545 | **(2,010)** | 7,527 |
| **Net investment income** | **$ 826** | $ 1,464 | $ 4,061 | **$ 4,261** | $ 13,537 |

Net investment income in the fourth quarter of 2015, which includes changes in fair value through profit or loss, decreased by $3,235 million compared to the same quarter last year. The change in fair values in the fourth quarter of 2015 was a decrease of $844 million compared to an increase of $2,545 million for the fourth quarter of 2014. Bond values decreased during the fourth quarter of 2015, primarily due to higher U.K. and U.S. bond yields. In the fourth quarter of 2014, bond values increased primarily due to declining U.K. and Canadian government bond yields.

Regular net investment income in the fourth quarter of 2015, which excludes changes in fair value through profit or loss, increased by $154 million compared to the fourth quarter of 2014. The increase was primarily due to the impact of currency movement as the U.S. dollar and British pound strengthened against the Canadian dollar as well as higher net realized gains. Net realized gains included gains on available-for-sale securities of $4 million for the fourth quarter of 2015 compared to $23 million for the same quarter last year.

For the twelve months ended December 31, 2015, net investment income decreased by $9,276 million compared to the same period last year. The change in fair values for the twelve month period in 2015 was a decrease of $2,010 million compared to an increase in fair values of $7,527 million during the same period in 2014. For the twelve months ended December 31, 2015, global bond yields were mixed as U.K. and U.S. bond yields increased in 2015 but declined in 2014, while Canadian bond yields have declined less in 2015 than the same period last year. As well, Canadian equity markets declined in 2015 but increased for the same period in 2014.

Regular net investment income for the twelve months ended December 31, 2015 increased by $261 million compared to the same period last year. The increase was primarily due to the impact of currency movement as the U.S. dollar and British pound strengthened against the Canadian dollar as well as higher net realized gains. Net realized gains included gains on available-for-sale securities of $106 million for the twelve months ended December 31, 2015, compared to $58 million for the same period last year.

Net investment income in the fourth quarter of 2015 decreased by $638 million compared to the previous quarter, primarily due to net decreases in fair values of $844 million in the fourth quarter of 2015 compared to $82 million in the previous quarter. The net change in fair values during the fourth quarter was primarily due to an increase in U.K. and U.S. government bond yields. During the previous quarter, the impact of a decline in Canadian equity markets was mostly offset by an increase in U.K. bond values due to the decline in U.K. government bond yields.

## 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 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 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| **Canada** | | | | | |
| Segregated funds, mutual funds and other | **$ 328** | $ 328 | $ 309 | **$ 1,302** | $ 1,256 |
| ASO contracts | **41** | 38 | 40 | **157** | 153 |
| | **369** | 366 | 349 | **1,459** | 1,409 |
| **United States** | | | | | |
| Segregated funds, mutual funds and other | **637** | 591 | 522 | **2,378** | 1,820 |
| **Europe** | | | | | |
| Segregated funds, mutual funds and other | **327** | 284 | 290 | **1,221** | 1,193 |
| **Total fee and other income** | **$ 1,333** | $ 1,241 | $ 1,161 | **$ 5,058** | $ 4,422 |

The information in the table above is a summary of gross fee and other income for the Company. Additional commentary regarding fee and other income is included in the "Segmented Operating Results" section.

## PAID OR CREDITED TO POLICYHOLDERS

| Paid or credited to policyholders | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Canada | **$ 2,799** | $ 1,967 | $ 3,327 | **$ 9,991** | $ 12,676 |
| United States | **1,084** | 1,390 | 1,229 | **4,138** | 4,901 |
| Europe | **1,649** | 2,476 | 3,569 | **8,713** | 11,583 |
| **Total** | **$ 5,532** | $ 5,833 | $ 8,125 | **$ 22,842** | $ 29,160 |

Amounts paid or credited to policyholders include life and health claims, policy surrenders, annuity and maturity payments, segregated fund guarantee payments, policyholder dividend and experience refund payments and changes in insurance and investment contract liabilities. The change in contract liabilities includes the impact of changes in fair value of certain invested assets supporting those liabilities as well as changes in the provision for future credit losses. The amounts do not include benefit payments for ASO contracts or segregated funds and mutual funds.

For the three months ended December 31, 2015, consolidated amounts paid or credited to policyholders were $5.5 billion, including $5.8 billion of policyholder benefit payments and a $0.3 billion decrease in contract liabilities. The decrease of $2.6 billion from the same period in 2014 consisted of a $3.2 billion decrease in the change in contract liabilities, partially offset by a $0.6 billion increase in benefit payments. The decrease in the change in contract liabilities was primarily due to fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe. The increase in benefit payments was primarily due to the impact of currency movement and new and restructured reinsurance treaties.

For the twelve months ended December 31, 2015, consolidated amounts paid or credited to policyholders were $22.8 billion, including $22.0 billion of policyholder benefit payments and a $0.8 billion increase in contract liabilities. The decrease of $6.3 billion from the same period in 2014 consisted of a $9.4 billion decrease in the change in contract liabilities and a $3.1 billion increase in benefit payments. The decrease in the change in contract liabilities was primarily due to fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe as well as the impact of a Dutch-based annuity reinsurance agreement entered into during the second quarter of 2014. The decrease was partially offset by the acquisition of Equitable Life's annuity business during the first quarter of 2015. The increase in benefit payments was primarily due to new and restructured reinsurance treaties and the impact of currency movement.

Compared to the previous quarter, consolidated amounts paid or credited to policyholders decreased by $0.3 billion. The decrease consisted of a $0.5 billion decrease in the change in contract liabilities, primarily due to fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe. The decrease was partially offset by a $0.2 billion increase in benefit payments primarily due to higher business volumes and the impact of currency movement.

## OTHER BENEFITS AND EXPENSES

**Other benefits and expenses**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Commissions | **$ 584** | $ 565 | $ 514 | **$ 2,218** | $ 2,084 |
| Operating and administrative expenses | **1,175** | 1,132 | 1,005 | **4,466** | 3,741 |
| Premium taxes | **92** | 83 | 86 | **339** | 339 |
| Financing charges | **73** | 78 | 77 | **303** | 304 |
| Amortization of finite life intangible assets | **37** | 36 | 34 | **146** | 132 |
| Restructuring and acquisition expenses | **7** | 7 | 7 | **35** | 32 |
| **Total** | **$ 1,968** | $ 1,901 | $ 1,723 | **$ 7,507** | $ 6,632 |

Other benefits and expenses for the fourth quarter of 2015 of $1,968 million increased by $245 million compared to the fourth quarter of 2014, primarily due to the impact of currency movement, higher operating and administrative expenses, driven by increased strategic investments and higher commissions, driven by higher sales.

For the twelve months ended December 31, 2015, other benefits and expenses increased by $875 million compared to the same period last year, primarily due to the impact of currency movement, higher operating and administrative expenses, driven by the ongoing inclusion of RPS expenses, strategic investments in technology and Solvency II implementation, and higher commissions, driven by higher sales.

Other benefits and expenses for the fourth quarter of 2015 increased by $67 million compared to the previous quarter primarily due to increased operating and administrative expenses, driven by increased strategic investments, higher commissions, driven by higher sales, as well as the impact of currency movement.

**INCOME TAXES**

The Company's effective income tax rate is generally lower than the statutory income tax rate of 26.75% due to benefits related to non-taxable investment income and lower income tax in foreign jurisdictions.

In the fourth quarter of 2015, the Company had an effective income tax rate of 8%, down from 19% in the fourth quarter of 2014. The decrease in the effective income tax rate for the fourth quarter of 2015 was primarily due to a higher percentage of the Company's income consisting of non-taxable investment income and income subject to lower rates of income tax in foreign jurisdictions as well as changes in certain tax estimates, which included the positive impact of an adjustment of US$27 million in the Asset Management business unit of the U.S. segment.

The Company had an effective income tax rate of 13% for the twelve months ended December 31, 2015 compared to 19% for the same period last year. The decrease in the Company's effective income tax rate was primarily due to the same reasons discussed for the in-quarter results, as well as higher adjustments of prior year tax provisions to tax filings in 2015 as compared to 2014.

The fourth quarter effective income tax rate of 8% was lower than the third quarter rate of 10%. The decrease in the effective income tax rate was primarily due to a higher benefit from changes in certain tax estimates. The fourth quarter of 2015 included the adjustment in the U.S. segment as discussed for the in-quarter results, while the third quarter of 2015 included the adjustment of prior year tax provisions to tax filings.

## CONSOLIDATED FINANCIAL POSITION

### ASSETS

**Assets under administration**

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | **Canada** | **United States** | **Europe** | **Total** |
| **Assets** | | | | |
| Invested assets | $ **67,701** | $ **43,809** | $ **50,071** | $ **161,581** |
| Goodwill and intangible assets | **5,132** | **2,465** | **2,352** | **9,949** |
| Other assets | **2,793** | **4,535** | **22,883** | **30,211** |
| Segregated funds net assets | **70,269** | **35,966** | **91,959** | **198,194** |
| **Total assets** | **145,895** | **86,775** | **167,265** | **399,935** |
| Proprietary mutual funds and institutional net assets | **5,039** | **218,231** | **29,210** | **252,480** |
| **Total assets under management** | **150,934** | **305,006** | **196,475** | **652,415** |
| Other assets under administration | **15,390** | **503,125** | **41,587** | **560,102** |
| **Total assets under administration** | $ **166,324** | $ **808,131** | $ **238,062** | $ **1,212,517** |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Canada | United States | Europe | Total |
| **Assets** | | | | |
| Invested assets | $ 64,718 | $ 36,198 | $ 45,440 | $ 146,356 |
| Goodwill and intangible assets | 5,123 | 2,061 | 2,296 | 9,480 |
| Other assets | 3,277 | 3,613 | 19,017 | 25,907 |
| Segregated funds net assets | 68,372 | 31,030 | 75,564 | 174,966 |
| **Total assets** | 141,490 | 72,902 | 142,317 | 356,709 |
| Proprietary mutual funds and institutional net assets | 4,718 | 190,817 | 20,736 | 216,271 |
| **Total assets under management** | 146,208 | 263,719 | 163,053 | 572,980 |
| Other assets under administration | 14,793 | 433,754 | 41,806 | 490,353 |
| **Total assets under administration** | $ 161,001 | $ 697,473 | $ 204,859 | $ 1,063,333 |

Total assets under administration at December 31, 2015 increased by $149.2 billion to $1.2 trillion compared to December 31, 2014, primarily due to the positive impact of currency movement.

### 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. The Company implements strategies within the overall framework of the Company's policies, reviewing and adjusting them on an ongoing basis in light of 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.

**Invested asset distribution**

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | **Canada** | **United States** | **Europe** | **Total** | |
| Bonds | | | | | |
| Government & related | **$ 20,192** | **$ 9,254** | **$ 17,617** | **$ 47,063** | **29%** |
| Corporate & other | **22,928** | **22,797** | **22,155** | **67,880** | **42** |
| Sub-total bonds | **43,120** | **32,051** | **39,772** | **114,943** | **71** |
| Mortgages | **12,691** | **4,932** | **4,398** | **22,021** | **14** |
| Stocks | **6,971** | **168** | **734** | **7,873** | **5** |
| Investment properties | **1,788** | **5** | **3,444** | **5,237** | **3** |
| Sub-total portfolio investments | **64,570** | **37,156** | **48,348** | **150,074** | **93** |
| Cash and cash equivalents | **578** | **627** | **1,608** | **2,813** | **2** |
| Loans to policyholders | **2,553** | **6,026** | **115** | **8,694** | **5** |
| **Total invested assets** | **$ 67,701** | **$ 43,809** | **$ 50,071** | **$ 161,581** | **100%** |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Canada | United States | Europe | Total | |
| Bonds | | | | | |
| Government & related | $ 19,541 | $ 7,624 | $ 16,867 | $ 44,032 | 30% |
| Corporate & other | 21,102 | 18,558 | 19,476 | 59,136 | 41 |
| Sub-total bonds | 40,643 | 26,182 | 36,343 | 103,168 | 71 |
| Mortgages | 12,593 | 4,212 | 3,741 | 20,546 | 14 |
| Stocks | 7,018 | 149 | 653 | 7,820 | 5 |
| Investment properties | 1,556 | 4 | 3,053 | 4,613 | 3 |
| Sub-total portfolio investments | 61,810 | 30,547 | 43,790 | 136,147 | 93 |
| Cash and cash equivalents | 413 | 528 | 1,557 | 2,498 | 2 |
| Loans to policyholders | 2,495 | 5,123 | 93 | 7,711 | 5 |
| Total invested assets | $ 64,718 | $ 36,198 | $ 45,440 | $ 146,356 | 100% |

At December 31, 2015, total invested assets were $161.6 billion, an increase of $15.2 billion from December 31, 2014. The increase was primarily due to the impact of currency movement as the U.S. dollar and British pound strengthened against the Canadian dollar. The 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 only investment grade bonds subject to prudent and well-defined investment policies. The total bond portfolio, including short-term investments, was $114.9 billion or 71% of invested assets at December 31, 2015 and $103.2 billion or 71% at December 31, 2014. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 81% rated A or higher.

**Bond portfolio quality**

| | **December 31, 2015** | | December 31, 2014 | |
|---|---|---|---|---|
| AAA | **$ 36,434** | **32%** | $ 34,332 | 34% |
| AA | **20,364** | **18** | 18,954 | 18 |
| A | **35,623** | **31** | 31,133 | 30 |
| BBB | **20,984** | **18** | 17,370 | 17 |
| BB or lower | **1,538** | **1** | 1,379 | 1 |
| **Total** | **$ 114,943** | **100%** | $ 103,168 | 100% |

At December 31, 2015, non-investment grade bonds were $1.5 billion or 1.3% of the bond portfolio, which was comparable to $1.4 billion or 1.3% of the bond portfolio at December 31, 2014.

**Mortgage portfolio** – It is the Company's practice to acquire only 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.

**Mortgage portfolio**

| | December 31, 2015 | | | | December 31, 2014 | |
|---|---|---|---|---|---|---|
| Mortgage loans by type | Insured | Non-insured | Total | | Total | |
| Single family residential | $ 755 | $ 1,207 | $ 1,962 | 9% | $ 1,916 | 9% |
| Multi-family residential | 2,949 | 2,872 | 5,821 | 26 | 5,322 | 26 |
| Commercial | 210 | 14,028 | 14,238 | 65 | 13,308 | 65 |
| **Total** | $ 3,914 | $ 18,107 | $ 22,021 | 100% | $ 20,546 | 100% |

The total mortgage portfolio was $22.0 billion or 14% of invested assets at December 31, 2015, compared to $20.5 billion or 14% of invested assets at December 31, 2014. Total insured loans were $3.9 billion or 18% of the mortgage portfolio.

**Single family residential mortgages**

| Region | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| Ontario | $ 946 | 49% | $ 933 | 49% |
| Quebec | 405 | 21 | 401 | 21 |
| Alberta | 136 | 7 | 134 | 7 |
| British Columbia | 123 | 6 | 111 | 6 |
| Newfoundland | 105 | 5 | 102 | 5 |
| Saskatchewan | 84 | 4 | 78 | 4 |
| Nova Scotia | 62 | 3 | 62 | 3 |
| Manitoba | 55 | 3 | 51 | 3 |
| New Brunswick | 42 | 2 | 41 | 2 |
| Other | 4 | — | 3 | — |
| **Total** | $ 1,962 | 100% | $ 1,916 | 100% |

During the twelve months ended December 31, 2015, single family mortgage originations, including renewals, were $628 million, of which 33% were insured. Insured mortgages include mortgages where insurance is provided by a third party and protects the Company in the event that the borrower is unable to fulfill their mortgage obligations. Loans that are insured are subject to the requirements of the mortgage default insurance provider. For new originations of non-insured residential mortgages, the Company's investment policies limit the amortization period to a maximum 25 years and the loan-to-value to a maximum of 80% of the purchase price or current appraised value of the property. The weighted average remaining amortization period for the single family residential mortgage portfolio is 22 years as at December 31, 2015.

**Commercial mortgages**

| | December 31, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | U.S. | Europe | Total | Canada | U.S. | Europe | Total |
| Retail & shopping centres | $ 3,367 | $ 731 | $ 1,692 | $ 5,790 | $ 3,410 | $ 503 | $ 1,581 | $ 5,494 |
| Office buildings | 1,703 | 621 | 946 | 3,270 | 1,574 | 637 | 693 | 2,904 |
| Industrial | 1,595 | 1,375 | 977 | 3,947 | 1,578 | 1,365 | 734 | 3,677 |
| Other | 390 | 435 | 406 | 1,231 | 455 | 383 | 395 | 1,233 |
| **Total** | $ 7,055 | $ 3,162 | $ 4,021 | $ 14,238 | $ 7,017 | $ 2,888 | $ 3,403 | $ 13,308 |

**Equity portfolio**

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| Equity portfolio by type | | | | |
| Publicly traded stocks | **$ 7,054** | **54%** | $ 7,012 | 57% |
| Privately held equities (at cost) | **819** | **6** | 808 | 6 |
| Sub-total | **7,873** | **60** | 7,820 | 63 |
| Investment properties | **5,237** | **40** | 4,613 | 37 |
| **Total** | **$ 13,110** | **100%** | $ 12,433 | 100% |

**Investment properties**

| | December 31, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Canada** | **U.S.** | **Europe** | **Total** | Canada | U.S. | Europe | Total |
| Office buildings | **$ 955** | **$ —** | **$ 730** | **$ 1,685** | $ 749 | $ — | $ 774 | $ 1,523 |
| Industrial | **288** | **—** | **762** | **1,050** | 290 | — | 638 | 928 |
| Retail | **204** | **—** | **1,417** | **1,621** | 204 | — | 1,191 | 1,395 |
| Other | **341** | **5** | **535** | **881** | 313 | 4 | 450 | 767 |
| **Total** | **$ 1,788** | **$ 5** | **$ 3,444** | **$ 5,237** | $ 1,556 | $ 4 | $ 3,053 | $ 4,613 |

**Equity portfolio** – The total equity portfolio was $13.1 billion or 8% of invested assets at December 31, 2015 compared to $12.4 billion or 8% of invested assets at December 31, 2014. The equity portfolio consists of publicly traded stocks, privately held equities and investment properties. The increase in investment properties of $0.6 billion was mainly a result of net market value increases and the strengthening of the British pound against the Canadian dollar.

**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, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Gross amount** | **Impairment recovery** | **Impairment provision** | **Carrying amount** | Gross amount | Impairment recovery | Impairment provision | Carrying amount |
| Fair value through profit or loss | **$ 287** | **$ 69** | **$ (1)** | **$ 355** | $ 292 | $ 66 | $ (3) | $ 355 |
| Available-for-sale | **12** | **2** | **(3)** | **11** | 15 | — | (1) | 14 |
| Loans and receivables | **50** | **—** | **(20)** | **30** | 33 | — | (18) | 15 |
| **Total** | **$ 349** | **$ 71** | **$ (24)** | **$ 396** | $ 340 | $ 66 | $ (22) | $ 384 |

The gross amount of impaired investments totaled $349 million or 0.2% of portfolio investments (including certain assets reported as funds held by ceding insurers) at December 31, 2015 compared with $340 million or 0.2% at December 31, 2014, a net increase of $9 million. Impaired investments increased primarily due to the strengthening of the British pound and U.S. dollar against the Canadian dollar, which was mostly offset by repayments.

The impairment recovery at December 31, 2015 was $71 million, which reflects the improvement in market values of certain impaired investments from the date at which they became impaired. The impairment provision at December 31, 2015 of $24 million was comparable to $22 million at December 31, 2014. 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 to the Company's December 31, 2015 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.

At December 31, 2015, the total actuarial provision for future credit losses in insurance contract liabilities was $3,558 million compared to $3,133 million at December 31, 2014, an increase of $425 million primarily due to the impact of currency movement, normal business activity and credit rating activity, partially offset by the impact of basis changes.

The aggregate of impairment provisions of $24 million ($22 million at December 31, 2014) and actuarial provisions for future credit losses in insurance contract liabilities of $3,558 million ($3,133 million at December 31, 2014) represents 2.4% of bond and mortgage assets, including funds held by ceding insurers, at December 31, 2015 (2.4% at December 31, 2014).

### *Energy Sector*

**Holdings of Energy Sector[1] related Bonds, Mortgages and Investment Properties**

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | **Canada** | **U.S.** | **Europe** | **Total** | **Amortized Cost [2]** |
| Bonds[3] | **$ 1,565** | **$ 2,046** | **$ 1,605** | **$ 5,216** | **$ 5,177** |
| Mortgages | **2,204** | **300** | **56** | **2,560** | **2,560** |
| Investment properties | **300** | **—** | **—** | **300** | |
| **Total** | **$ 4,069** | **$ 2,346** | **$ 1,661** | **$ 8,076** | |

(1) Energy sector bond holdings are a sub-category of certain industry sectors presented in note 7(a)(ii) in the Company's December 31, 2015 annual consolidated financial statements.
(2) Amortized cost is not applicable for Investment properties.
(3) Includes certain funds held by ceding insurers with a carrying value of $570 million and an amortized cost of $544 million.

At December 31, 2015, the Company's holdings of energy sector related investments, including funds held by ceding insurers, were $8.1 billion. This included direct exposure of bond holdings of $5.2 billion, or 3.0% of invested assets, including funds held by ceding insurers, and indirect exposure of commercial mortgages and investment properties of $2.9 billion, or 1.6% of invested assets, including funds held by ceding insurers.

At December 31, 2015, the Company's energy sector related bond holdings of $5.2 billion were well diversified across multiple sub-sectors and were high quality with approximately 97% rated investment grade. Approximately half of the portfolio was invested in Midstream and Refining entities and half in Integrated, Independent and Oil Field Services entities.

In January 2016, Moody's Investors Service (Moody's) and Standard & Poor's Ratings Services revised their forecasts downward for crude oil and natural gas prices. 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. Moody's has changed its outlook to Negative for these three sub-sectors while maintaining a Stable Outlook for the Midstream and Master Limited Partnerships as well as the Refining and Marketing sub-sectors. Underpinning the change in outlook is a forecast for West Texas Intermediate, the U.S. benchmark for crude oil per barrel, of US$33 in 2016, US$38 in 2017 and US$43 in 2018. While the outlook for certain sub-sectors has been lowered, the risk profile for individual issuers within a sub-segment will vary depending upon the credit worthiness of the particular issuer. To date, the impact of the decrease in crude oil prices on the Company's bond holdings has been limited to spread widening and some small increases in asset default provisions as a result of rating downgrades.

In addition to direct exposure related to the bond holdings, the Company also holds commercial mortgages and investment properties that are concentrated in certain geographic regions where the economy is more dependent upon the energy sector. These holdings totaled $2.9 billion at December 31, 2015, and are well diversified across property type - Industrial/Other (29%), Multi-family (28%), Office (23%) and Retail (20%). Approximately 82% of the portfolio is 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 less than 55% at December 31, 2015.

## 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 2015. 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 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, 2015, total financial collateral, including initial margin and overcollateralization, received on derivative assets was $107 million ($52 million at December 31, 2014) and pledged on derivative liabilities was $671 million ($299 million at December 31, 2014). Collateral pledged on derivative liabilities increased in 2015, in response to an increase in derivative liabilities, primarily driven by the impact of the strengthening of the U.S. dollar against the Canadian dollar on cross currency swap fair values.

During the twelve month period ended December 31, 2015, the outstanding notional amount of derivative contracts increased by $1.2 billion to $16.7 billion, primarily as a result of regular hedging activities.

The Company's exposure to derivative counterparty credit risk, which reflects the current fair value of those instruments in a gain position, decreased to $461 million at December 31, 2015 from $652 million at December 31, 2014. The decrease was primarily due to interest rate swaps that were in an unrealized gain position of $202 million at December 31, 2014 that were unwound in the first quarter of 2015.

### Goodwill and intangible assets

| **Goodwill and intangible assets** | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| Goodwill | **$ 5,913** | $ 5,855 |
| Indefinite life intangible assets | **3,115** | 2,788 |
| Finite life intangible assets | **921** | 837 |
| **Total** | **$ 9,949** | $ 9,480 |

The Company's goodwill and intangible assets relate primarily to its acquisitions of London Life, Canada Life, Putnam and Irish Life. Goodwill and intangible assets increased by $469 million to $9,949 million at December 31, 2015 compared to December 31, 2014. Goodwill increased $58 million to $5,913 million driven by currency movements. Indefinite and finite life intangible assets increased by $411 million during 2015. The increase was driven by currency movements and net additions to computer software finite life intangible assets.

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 intangibles 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. In the fourth quarter of 2015, the Company conducted its annual impairment testing of goodwill and intangible assets. There were no impairments to goodwill and indefinite life intangible assets identified during the testing. In the fourth quarter of 2015, the Company recognized an impairment of $2 million ($2 million after-tax) to finite life intangible assets related to computer software.

Refer to note 11 in the Company's December 31, 2015 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 | |
|---|---|---|
| | **2015** | 2014 |
| Funds held by ceding insurers | **$ 15,512** | $ 12,154 |
| Reinsurance assets | **5,131** | 5,151 |
| Premiums in course of collection, accounts and interest receivable | **3,553** | 3,056 |
| Other assets | **2,643** | 2,368 |
| Deferred tax assets | **1,891** | 1,631 |
| Owner occupied properties | **653** | 619 |
| Derivative financial instruments | **461** | 652 |
| Fixed assets | **298** | 228 |
| Current income taxes | **69** | 48 |
| **Total** | **$ 30,211** | $ 25,907 |

Total other general fund assets at December 31, 2015 were $30.2 billion, an increase of $4.3 billion from December 31, 2014. The increase was primarily due to a $3.4 billion increase in funds held by ceding insurers and a $0.3 billion increase in deferred tax assets. The increase in funds held by ceding reinsurers was primarily due to two large reinsurance agreements entered into during 2015, which included Equitable Life's annuity business.

Other assets comprise several items including prepaid expenses and accounts receivable. Refer to note 13 in the Company's December 31, 2015 annual consolidated financial statements for a breakdown of other assets.

## Investments on account of segregated fund policyholders

**Segregated funds**

| | December 31 | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| Stock and units in unit trusts | **$ 80,829** | $ 68,911 | $ 62,882 |
| Mutual funds | **50,101** | 46,707 | 41,555 |
| Bonds | **42,160** | 37,912 | 34,405 |
| Investment properties | **10,839** | 9,533 | 8,284 |
| Cash and other | **10,279** | 8,383 | 10,454 |
| Mortgage loans | **2,596** | 2,508 | 2,427 |
| **Sub-total** | **$ 196,804** | $ 173,954 | $ 160,007 |
| Non-controlling mutual funds interest | **1,390** | 1,012 | 772 |
| **Total** | **$ 198,194** | $ 174,966 | $ 160,779 |
| Year-over-year growth | **13%** | 9% | |

Investments on account of segregated fund policyholders which are measured at fair value, increased by $23.2 billion to $198.2 billion at December 31, 2015, primarily due the impact of currency movement of $12.9 billion, the $5.5 billion impact of the LGII acquisition, the combined impact of market value gains and investment income of $4.7 billion, partially offset by net withdrawals of $0.3 billion.

### Proprietary mutual funds

**Proprietary mutual funds and institutional net assets**

| | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **Mutual funds** | | |
| Blend equity | **$ 40,070** | $ 37,343 |
| Growth equity | **14,468** | 13,587 |
| Equity value | **22,798** | 21,130 |
| Fixed-income | **34,384** | 32,975 |
| Money market | **123** | 118 |
| Great-West Financial Funds[(1)] | **13,480** | 8,033 |
| Sub-total | **125,323** | 113,186 |
| **Institutional accounts** | | |
| Equity | **77,236** | 65,157 |
| Fixed-income | **44,458** | 37,674 |
| Other | **5,463** | 254 |
| Sub-total | **127,157** | 103,085 |
| **Total proprietary mutual funds and institutional accounts** | **$ 252,480** | $ 216,271 |

(1) Excludes $9.1 billion of Putnam managed funds ($1.0 billion at December 31, 2014), which are included in the categories above.

At December 31, 2015, total proprietary mutual funds and institutional accounts includes $218.2 billion at Putnam and Great-West Financial, $4.9 billion at Quadrus, and $28.6 billion at Irish Life. Proprietary mutual funds and institutional accounts under management increased by $36.2 billion, primarily as a result of the positive impact of currency and market movements of $30.0 billion and net inflows of $6.2 billion.

### LIABILITIES

**Total liabilities**

| | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| Insurance and investment contract liabilities | **$ 160,672** | $ 146,055 |
| Other general fund liabilities | **15,809** | 13,791 |
| Investment and insurance contracts on account of segregated fund policyholders | **198,194** | 174,966 |
| **Total** | **$ 374,675** | $ 334,812 |

Total liabilities increased by $39.9 billion to $374.7 billion at December 31, 2015 from December 31, 2014.

Investment and insurance contracts on account of segregated fund policyholders increased by $23.2 billion, primarily due the impact of currency movement of $12.9 billion, the $5.5 billion impact of the LGII acquisition, the combined impact of market value gains and investment income of $4.7 billion, partially offset by net withdrawals of $0.3 billion. Insurance and investment contract liabilities increased by $14.6 billion. The increase was primarily due to the strengthening of the U.S. dollar, euro and British pound against the Canadian dollar. The acquisition of Equitable Life's annuity business and a block of investment contract liabilities in the form of structured settlements with fixed terms and amounts also contributed to the increase.

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.

**Assets supporting insurance and investment contract liabilities**

| | Participating Account | Non-Participating Canada | Non-Participating United States | Non-Participating Europe | Total |
|---|---|---|---|---|---|
| **December 31, 2015** | | | | | |
| Bonds | **$ 22,306** | **$ 18,848** | **$ 23,023** | **$ 32,985** | **$ 97,162** |
| Mortgage loans | **8,341** | **3,839** | **3,813** | **4,358** | **20,351** |
| Stocks | **4,266** | **1,732** | **—** | **226** | **6,224** |
| Investment properties | **1,412** | **7** | **—** | **3,342** | **4,761** |
| Other assets[(1)] | **9,544** | **3,736** | **789** | **18,105** | **32,174** |
| **Total assets** | **$ 45,869** | **$ 28,162** | **$ 27,625** | **$ 59,016** | **$ 160,672** |
| **Total insurance and investment contract liabilities** | **$ 45,869** | **$ 28,162** | **$ 27,625** | **$ 59,016** | **$ 160,672** |
| December 31, 2014 | | | | | |
| Bonds | $ 19,904 | $ 18,991 | $ 18,678 | $ 30,723 | $ 88,296 |
| Mortgage loans | 8,126 | 3,941 | 3,330 | 3,702 | 19,099 |
| Stocks | 4,414 | 1,740 | — | 191 | 6,345 |
| Investment properties | 1,230 | 5 | — | 2,738 | 3,973 |
| Other assets[(1)] | 9,246 | 3,417 | 603 | 15,076 | 28,342 |
| Total assets | $ 42,920 | $ 28,094 | $ 22,611 | $ 52,430 | $ 146,055 |
| Total insurance and investment contract liabilities | $ 42,920 | $ 28,094 | $ 22,611 | $ 52,430 | $ 146,055 |

(1) Other assets include premiums in the course of collection, interest due and accrued, other investment receivables, current income taxes, prepaid expenses, accounts receivable and deferred acquisition costs.

Asset and liability cash flows are matched within reasonable 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 2015 | December 31 2014 |
|---|---|---|
| Debentures and other debt instruments | **$ 5,395** | $ 5,355 |
| Other liabilities | **3,367** | 3,099 |
| Derivative financial instruments | **2,624** | 1,195 |
| Accounts payable | **1,755** | 1,480 |
| Deferred tax liabilities | **1,659** | 1,450 |
| Current income taxes | **492** | 737 |
| Funds held under reinsurance contracts | **356** | 313 |
| Capital trust securities | **161** | 162 |
| **Total** | **$ 15,809** | $ 13,791 |

Total other general fund liabilities increased by $2.0 billion to $15.8 billion, primarily due to an increase in derivative financial instruments of $1.4 billion as well as an increase in accounts payable and other liabilities of $0.5 billion.

Other liabilities of $3.4 billion include pension and other post-employment benefits, deferred income reserve, bank overdraft and other liability balances. Refer to note 19 in the Company’s December 31, 2015 annual consolidated financial statements for a breakdown of the other liabilities balance and note 17 in the Company’s December 31, 2015 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.

The Company utilizes internal reinsurance treaties to aggregate the business as a risk-mitigating tool. Aggregation enables the Company to benefit from diversification of segregated fund risks within one legal entity, a more efficient and cost effective hedging process, and better management of the liquidity risk associated with hedging. It also results in the Company holding lower required capital and insurance contract liabilities, as aggregation of different risk profiles allows the Company to reflect offsets at a consolidated level.

In Canada, the Company offers individual segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits (GMAB). In 2009, Great-West Life, London Life and Canada Life launched new individual segregated fund products which offer three levels of death and maturity guarantees, guarantee reset riders and lifetime guaranteed minimum withdrawal benefits (GMWB).

For a certain generation of products, the guarantees in connection with the Canadian individual segregated fund businesses of Great-West Life, London Life and Canada Life have been reinsured to London Reinsurance Group Inc. (LRG), a subsidiary of London Life. This does not include the guarantees on newer Canadian products, which have been reinsured to London Life. In addition to the guarantees reinsured from Great-West Life, London Life and Canada Life, LRG also has a closed portfolio of GMDB, 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 through Canada Life and unit-linked products with investment guarantees through Irish Life. These products are similar to segregated fund products, but include pooling of policyholders' funds and minimum credited interest rates. The Company also offers a GMWB product in Germany through Canada Life.

In the U.S., the Company offers variable annuities with GMDB through Great-West Financial. Most are a return of premium on death with the guarantee expiring at age 70. Great-West Financial in the U.S. also offers a GMWB product.

For policies with these guarantees, the Company generally determines policy liabilities for the guarantees at a CTE75 (conditional tail expectation of the 75th percentile) level. The CTE75 level determines the amount of policy liabilities as the amount required in excess of the policyholder funds in the average of the 25% worst scenarios tested, using scenario generating processes consistent with the Canadian Institute of Actuaries' Standards of Practice. Generally, if this amount is less than zero, then no policy liability is held for the guarantees.

For purposes of determining the required capital for these guarantees a Total Gross Calculated Requirement (TGCR) is determined and the required capital is equal to the TGCR less the policy liabilities held. The TGCR was $263 million at December 31, 2015 ($206 million at December 31, 2014). The Office of the Superintendent of Financial Institutions (OSFI) rules for the TGCR provide for a CTE98 level for cash flows within one year, CTE95 level for cash flows between one and five years, and between CTE90 level and CTE95 level for cash flows greater than five years. The TGCR is determined separately for business written on or after January 1, 2011, as this business is subject to more stringent rules and cannot be offset by business written prior to 2011. All Canadian business is valued using OSFI approved internal models or approved OSFI factors.

The GMWB products offered by the Company in Canada, the U.S. and Germany, and previously offered in 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 and 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 this 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.

The GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2015, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was $3,488 million ($3,016 million at December 31, 2014).

**Segregated fund and variable annuity guarantee exposure**

| | | December 31, 2015 | | | |
|---|---|---|---|---|---|
| | | Investment deficiency by benefit type | | | |
| | **Market Value** | **Income** | **Maturity** | **Death** | **Total**[1] |
| **Canada** | $ 29,448 | $ — | $ 48 | $ 213 | $ 213 |
| **United States** | 11,726 | 28 | — | 55 | 83 |
| **Europe** | | | | | |
| Insurance & Annuities | 8,853 | 3 | — | 444 | 444 |
| Reinsurance[2] | 1,240 | 441 | — | 29 | 470 |
| **Total Europe** | 10,093 | 444 | — | 473 | 914 |
| **Total** | **$ 51,267** | **$ 472** | **$ 48** | **$ 741** | **$ 1,210** |

(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, 2015.
(2) Reinsurance exposure is to markets in Canada and the United States.

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, 2015. 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 $4 million in-quarter ($2 million for the fourth quarter of 2014) and $15 million year-to-date ($10 million year-to-date for 2014), with the majority arising in the Reinsurance business unit in the Europe segment.

## 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 giving consideration to both the short and long-term capital needs of the Company.

### DEBENTURES AND OTHER DEBT INSTRUMENTS

At December 31, 2015, debentures and other debt instruments of $5,395 million were comparable to December 31, 2014.

Refer to note 17 in the Company's December 31, 2015 annual consolidated financial statements for further details of the Company's debentures and other debt instruments.

### CAPITAL TRUST SECURITIES

At December 31, 2015, 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, 2015 were CLiCS – Series B with a fair value of $50 million and principal value of $37 million (fair value of $51 million at December 31, 2014).

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, 2015 was $9,670 million, which comprises $7,156 million of common shares, $2,264 million of non-cumulative First Preferred Shares, $213 million of 5-year rate reset First Preferred Shares and $37 million of floating rate First Preferred Shares.

#### Common shares

At December 31, 2015, the Company had 993,350,331 common shares outstanding with a stated value of $7,156 million compared to 996,699,371 common shares with a stated value of $7,102 million at December 31, 2014.

The Company commenced a normal course issuer bid (NCIB) on December 9, 2014, that terminated on December 8, 2015, to purchase and cancel up to 8,000,000 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. During the twelve months ended December 31, 2015, the Company repurchased and subsequently cancelled 6,279,856 common shares (2014 - 3,024,050) at an average cost per share of $35.17 (2014 - $31.60) under its NCIB.

Subsequent to December 31, 2015, in order to mitigate the dilutive effect of stock options granted under the Company's Stock Option Plan and for other capital management purposes, the Company commenced a NCIB on January 8, 2016 for one year, enabling the Company to purchase and cancel up to 8,000,000 of its common shares at market prices.

## Preferred shares

At December 31, 2015, the Company had 10 series of fixed rate First Preferred Shares, one series of 5-year rate reset First Preferred Shares and one series of floating rate First Preferred Shares outstanding with aggregate stated values of $2,264 million, $213 million and $37 million, respectively.

The terms and conditions of the outstanding First Preferred Shares are set out in the table below:

| | Great-West Lifeco Inc. | | | | | |
|---|---|---|---|---|---|---|
| | **Series F** | **Series G** | **Series H** | **Series I** | **Series L** | **Series M** |
| 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 | Jul 10, 2003 | Sep 14, 2004 | Aug 12, 2005 | Apr 12, 2006 | Oct 2, 2009 | Mar 4, 2010 |
| Shares Outstanding | 7,740,032 | 12,000,000 | 12,000,000 | 12,000,000 | 6,800,000 | 6,000,000 |
| Amount Outstanding (Par) | $193,531,075 | $300,000,000 | $300,000,000 | $300,000,000 | $170,000,000 | $150,000,000 |
| Yield | 5.90% | 5.20% | 4.85% | 4.50% | 5.65% | 5.80% |
| Earliest Issuer Redemption Date | Sep 30, 2008 | Dec 31, 2009 | Sep 30, 2010 | Jun 30, 2011 | Dec 31, 2014 | Mar 31, 2015 |

| | Great-West Lifeco Inc. | | | | | |
|---|---|---|---|---|---|---|
| | **Series N[(1)]** | **Series O[(1)]** | **Series P** | **Series Q** | **Series R** | **Series S** |
| General Type | 5-Year Rate Reset | Floating 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 | Nov 23, 2010 | Dec 31, 2015 | Feb 22, 2012 | Jul 6, 2012 | Oct 11, 2012 | May 22, 2014 |
| Shares Outstanding | 8,524,422 | 1,475,578 | 10,000,000 | 8,000,000 | 8,000,000 | 8,000,000 |
| Amount Outstanding (Par) | $213,110,550 | $36,889,450 | $250,000,000 | $200,000,000 | $200,000,000 | $200,000,000 |
| Yield | 2.176% | Floating | 5.40% | 5.15% | 4.80% | 5.25% |
| Earliest Issuer Redemption Date | Dec 31, 2015 | Dec 31, 2015 | March 31, 2017 | Sep 30, 2017 | Dec 31, 2017 | Jun 30, 2019 |

(1) On December 31, 2015, at the election of certain holders of Series N, Non-Cumulative 5-Year Rate Reset First Preferred Shares, the Company converted 1,475,578 Series N Shares on an one-for-one basis into Series O, Non-Cumulative Floating Rate First Preferred Shares. The floating dividend rate for the Series O Shares issued on December 31, 2015 will be 1.742% for the period commencing on December 31, 2015 and ending on March 30, 2016. For the remaining Series N Shares, the annual fixed dividend rate for the five-year period commencing on December 31, 2015 and ending on December 30, 2020 will be 2.176% per annum (3.65% to December 30, 2015). The remaining Series N Shares are redeemable at the option of the Company on December 31, 2020 and on December 31 every five years thereafter for $25 per share plus all declared and unpaid dividends to the date fixed for redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series N share conditions, each Series N share is convertible into one Series O share at the option of the holders on December 31, 2020 and on December 31 every five years thereafter. The Series O Shares are redeemable at the option of the Company for $25.50 per share, unless the shares are redeemed on December 31, 2020 or on December 31 every five years thereafter in which case the redemption price will be $25.00 per share, together in each case with all declared and unpaid dividends to but excluding the date of redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series O share conditions, each Series O share is convertible into one Series N share at the option of the holders on December 31, 2020 and on December 31 every five years thereafter.

The terms and conditions of the Series F, G, H, I, L, M, N, O, P, Q, R and S 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 20 in the Company's December 31, 2015 annual consolidated financial statements for further details of the Company's non-controlling interests.

| Non-controlling interests | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **Participating account surplus in subsidiaries:** | | |
| Great-West Life | **$ 607** | $ 579 |
| London Life | **1,765** | 1,720 |
| Canada Life | **222** | 167 |
| Great-West Financial | **17** | 14 |
| | **$ 2,611** | $ 2,480 |
| **Non-controlling interests in subsidiaries** | **$ 195** | $ 163 |

## 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 adequate levels of liquid investments. 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, 2015, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of $7.1 billion ($7.3 billion at December 31, 2014) and other available government bonds of $35.6 billion ($32.8 billion at December 31, 2014). Included in the cash, cash equivalents and short-term bonds at December 31, 2015 was approximately $0.9 billion ($0.7 billion at December 31, 2014) at the Lifeco holding company level. In addition, the Company maintains sufficient committed lines of credit with Canadian chartered banks for 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 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. For entities based in Europe, the local solvency capital regime has changed to the Solvency II basis, effective January 1, 2016. During 2015, the Company’s regulated European businesses prepared for the implementation of the new regulatory requirements and work will continue in 2016 towards obtaining additional approvals and managing the potential capital volatility under the new regulations in 2016.

| Liquid assets and other marketable securities | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **Liquid assets** | | |
| Cash, treasury bills and certificates of deposits | **$ 7,056** | $ 7,272 |
| Government bonds | **35,576** | 32,804 |
| **Total liquid assets** | **42,632** | 40,076 |
| **Other marketable securities** | | |
| Corporate bonds | **45,130** | 40,255 |
| Common/Preferred shares (public) | **7,054** | 7,012 |
| Residential mortgages - insured | **3,704** | 3,745 |
| **Total** | **$ 98,520** | $ 91,088 |

| Cashable liability characteristics | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| Surrenderable insurance and investment contract liabilities | | |
| At market value | **$ 19,641** | $ 16,794 |
| At book value | **47,403** | 42,210 |
| **Total** | **$ 67,044** | $ 59,004 |

The majority of the liquid assets and other marketable securities comprise fixed-income securities whose value is inversely related to interest rates. Consequently, a significant rise in prevailing interest rates would result in a decrease in the value of this pool of liquid assets. As well, a high interest rate environment may prompt holders of certain types of policies to terminate their policies, thereby placing demands on the Company's liquidity position.

The carrying value of the Company's liquid assets and other marketable securities is approximately $98.5 billion or 1.5 times the Company's expected total surrenderable insurance and investment contract liabilities. The Company believes that it holds a sufficient amount of liquid assets to meet unanticipated cash flow requirements prior to their maturity.

## CASH FLOWS

| Cash flows | For the three months ended December 31 | | For the twelve months ended December 31 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Cash flows relating to the following activities:** | | | | |
| Operations | **$ 1,063** | $ 712 | **$ 5,123** | $ 5,443 |
| Financing | **(194)** | (609) | **(1,683)** | (1,685) |
| Investment | **(1,802)** | (1,054) | **(3,424)** | (4,129) |
| | **(933)** | (951) | **16** | (371) |
| Effects of changes in exchange rates on cash and cash equivalents | **33** | 23 | **299** | 78 |
| Increase (decrease) in cash and cash equivalents in the period | **(900)** | (928) | **315** | (293) |
| Cash and cash equivalents, beginning of period | **3,713** | 3,426 | **2,498** | 2,791 |
| **Cash and cash equivalents, end of period** | **$ 2,813** | $ 2,498 | **$ 2,813** | $ 2,498 |

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 flow related financing activities include the issuance and repayment of capital instruments, and associated dividends and interest payments.

In the fourth quarter of 2015, cash and cash equivalents decreased by $900 million from September 30, 2015. Cash flows provided by operations during the fourth quarter of 2015 were $1,063 million, an increase of $351 million compared to the fourth quarter of 2014. Cash flows used in financing were $194 million, primarily used for payment of dividends to the preferred and common shareholders of $355 million, partially offset by an increase to a line of credit of a subsidiary of $161 million. For the three months ended December 31, 2015, cash flows were used by the Company to acquire an additional $1,802 million of investment assets.

For the twelve months ended December 31, 2015, cash and cash equivalents increased by $315 million from December 31, 2014. Cash flows provided by operations were $5,123 million, a decrease of $320 million compared to the same period in 2014. Cash flows used in financing were $1,683 million, primarily used for payment of dividends to the preferred and common shareholders of $1,424 million, the purchase and cancellation of $221 million in common shares and a $130 million decrease in a line of credit of a subsidiary. In the first quarter of 2015, the Company increased the quarterly dividend to common shareholders from $0.3075 per common share to $0.3260 per common share. For the twelve months ended December 31, 2015, cash flows were used by the Company to acquire an additional $3,424 million of investment assets.

## COMMITMENTS/CONTRACTUAL OBLIGATIONS

**Commitments/contractual obligations**
At December 31, 2015

| | Payments due by period | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Total** | **1 year** | **2 years** | **3 years** | **4 years** | **5 years** | **Over 5 years** |
| 1) Debentures and other debt instruments | $ 5,417 | $ 467 | $ 300 | $ 200 | $ — | $ 500 | $ 3,950 |
| 2) Operating leases | | | | | | | |
| - office | 463 | 113 | 98 | 85 | 52 | 39 | 76 |
| - equipment | 8 | 3 | 3 | 2 | — | — | — |
| 3) Purchase obligations | 227 | 85 | 45 | 33 | 30 | 27 | 7 |
| 4) Credit-related arrangements | | | | | | | |
| (a) Contractual commitments | 203 | 203 | — | — | — | — | — |
| (b) Letters of credit | see note 4(b) below | | | | | | |
| 5) Pension contributions | 198 | 198 | — | — | — | — | — |
| **Total contractual obligations** | **$ 6,516** | **$ 1,069** | **$ 446** | **$ 320** | **$ 82** | **$ 566** | **$ 4,033** |

1) Refer to note 17 in the Company's December 31, 2015 annual consolidated financial statements.

2) Operating leases include office space and certain equipment used in the normal course of business. Lease payments are charged to operations over the period of use. Subsequent to year-end, one of the Company's subsidiaries signed an office lease for 15 years commencing in 2018, for an additional commitment of $271 million over the period of the lease.

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 (LOC) are written commitments provided by a bank. The total amount of LOC facilities is US$2.9 billion of which US$2.7 billion were issued as of December 31, 2015.

The Reinsurance operation 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 LOCs on maturity. Various Lifeco subsidiaries have provided LOCs as follows:

***To external parties***
Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on the Company's behalf from approved banks in order to further secure the Company's obligations under certain reinsurance contracts.

The Great-West Life Assurance Company has a LOC facility for US$600 million with a bank syndicate, which can be used by Great-West Life and its subsidiaries. As of December 31, 2015, Great-West Life subsidiaries have issued US$228 million to external parties.

The Great-West Life Assurance Company also has a LOC facility for US$325 million for use by Great-West Life and its subsidiaries. Under this facility, Canada Life has issued US$56 million to external parties. Subsequent to December 31, 2015, this facility was increased to US$375 million.

As well, certain London Reinsurance Group subsidiaries and London Life have provided LOCs totaling US$8 million to external parties.

***To internal parties***
GWL&A Financial Inc. has a US$1.2 billion LOC facility. As of December 31, 2015, US$1,180 million has been issued to the U.S. branch of Canada Life as beneficiary, to allow it to receive statutory capital credit for reserves ceded to Great-West Life & Annuity Insurance Company of South Carolina.

GWL&A also has a US$70 million LOC facility in place. As of December 31, 2015, US$70 million has been issued to Great-West Life & Annuity Insurance Company of South Carolina as beneficiary, to allow it to receive statutory capital credit.

The Canada Life Assurance Company has a £117 million LOC issued to Canada Life Limited (CLL) as beneficiary, to allow CLL to receive statutory capital credit in the United Kingdom for a loan made from The Canada Life Group (U.K.) Limited.

Canada Life Reinsurance has a US$500 million LOC facility. As of December 31, 2015, US$474 million has been issued to Canada Life's U.S. Branch.

In addition, using capacity from the facilities listed above, Great-West Life subsidiaries have issued US$550 million to other subsidiaries.

5) Pension 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 one year 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.

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the MCCSR ratio. The internal target range of the MCCSR ratio for Lifeco's major Canadian operating subsidiaries is 175% to 215% (on a consolidated basis).

Great-West Life's MCCSR ratio at December 31, 2015 was 238% (224% at December 31, 2014). London Life's MCCSR ratio at December 31, 2015 was 226% (247% at December 31, 2014). Canada Life's MCCSR ratio at December 31, 2015 was 260% (237% at December 31, 2014). The MCCSR ratio does not take into account any impact from $0.9 billion of liquidity at the Lifeco holding company level at December 31, 2015 ($0.7 billion at December 31, 2014).

In calculating the MCCSR position, available regulatory capital is reduced by goodwill and intangible assets, subject to a prescribed inclusion for a portion of intangible assets. The OSFI MCCSR Guideline also prescribes that quarterly re-measurements to defined benefit plans, impacting available capital for the Company's federally regulated subsidiaries, are amortized over twelve quarters.

At December 31, 2015, the Risk Based Capital (RBC) ratio of Great-West Financial, Lifeco's regulated U.S. operating company, is estimated to be 441% (417% at December 31, 2014) of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Financial reports its RBC ratio annually to U.S. Insurance Regulators.

Due to the evolving nature of IFRS and proposed future changes to IFRS for the measurement of insurance contract liabilities, there will likely be further regulatory capital and accounting changes, some of which may be significant.

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 plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy, risk profile and business plans. The Board of Directors reviews and approves the annual capital plan as well as capital transactions undertaken by management pursuant to the plan. In addition to undertaking capital transactions, the Company uses and provides traditional and structured reinsurance to support capital and risk management.

### OSFI Regulatory Capital Initiatives

OSFI has commenced work on a number of initiatives that will have or may have application to the calculation and reporting of the MCCSR ratio of the Company or certain of its subsidiaries.

These initiatives are discussed in the 2013 OSFI Life Insurance Regulatory Framework. Within the Framework, there are three broad categories specific to regulatory capital amounts: the review of methodology used to determine capital requirements in connection with segregated fund guarantees; the review of the qualifying criteria and capital components of Available Capital; and the new regime for calculating capital requirements relating to credit, market, insurance and operational risk. In tandem with these reviews, OSFI will consider the extent of diversification benefits and hedging credits to reflect in its new framework.

The Company is presently reviewing the OSFI proposals that have been released to the industry to date, and is in ongoing dialogue with OSFI, the Canadian Institute of Actuaries, the Canadian Life and Health Insurance Association and other industry participants. The Company is also actively participating in OSFI Quantitative Impact Studies relating to its Life Insurance Regulatory Framework initiatives. At this point, the Company cannot determine what the final outcome of these initiatives will be.

**CAPITAL ALLOCATION METHODOLOGY**

The Company has a capital allocation methodology, which allocates financing costs in proportion to allocated capital. For the Canadian and European segments (essentially Great-West Life), this allocation method 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 Return on Equity (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.

**Return on Equity**[(1)]

| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 |
|---|---|---|---|
| **Canada** | **20.2 %** | 21.4 % | 22.1 % |
| **U.S. Financial Services**[(2)] | **13.0 %** | 14.2 % | 16.3 % |
| **U.S. Asset Management (Putnam)** | **1.4 %** | (0.4)% | (3.6)% |
| **Europe** | **16.8 %** | 17.3 % | 17.7 % |
| **Lifeco Corporate** | **(2.7)%** | (2.4)% | (5.3)% |
| **Total Lifeco Net Earnings Basis** | **14.7 %** | 15.2 % | 15.7 % |

(1) Return on Equity is the calculation of net earnings divided by the average common shareholders' equity over the trailing four quarters.
(2) Includes U.S. Corporate

The Company reported ROE of 14.7% at December 31, 2015 compared to 15.7% at December 31, 2014. While net earnings increased 8.5% in 2015, ROE decreased from the prior year as a result of the growth in the average common shareholders' equity which increased more than net earnings primarily due to the impact of currency movement as the U.S. dollar, British pound and euro strengthened against the Canadian dollar.

## RATINGS

The Company's financial leverage ratio has been maintained at less than 30% during 2015, consistent with credit rating agencies' targets for highly rated entities and provides the Company with financial flexibility to invest in organic growth and acquisition strategies.

Lifeco maintains ratings from five independent ratings companies. In 2015, the credit ratings for Lifeco and its major operating subsidiaries were mostly unchanged, with the exception of the DBRS Limited (DBRS) ratings (set out in table below). The ratings changes from DBRS were the result of a methodology change, which included the replacement of the claims paying ability category with the financial strength category and the addition of an issuer rating. The senior debt rating for Lifeco was downgraded from AA (low) to A (high) as a result of the DBRS methodology change. The Company continues to receive strong ratings relative to its North American peer group resulting from its conservative risk profile, stable net earnings and consistent dividend track record.

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 Europe. Great-West Life, London Life and Canada Life have common management, governance and strategy, as well as an integrated business platform. Each operating company benefits from the strong implicit financial support and collective ownership by Lifeco.

| Rating agency | Measurement | Lifeco | Great-West Life | London Life | Canada Life | Great-West Financial |
|---|---|---|---|---|---|---|
| A.M. Best Company | Financial Strength | | A+ | A+ | A+ | A+ |
| DBRS Limited | Issuer Rating | A (high) | AA | | | |
| | Financial Strength | | AA | AA | AA | NR |
| | Senior Debt | A (high) | | | | |
| | Subordinated Debt | | | | AA (low) | |
| Fitch Ratings | Insurer Financial Strength | | AA | AA | AA | AA |
| | Senior Debt | A | | | | |
| Moody's Investors Service | Insurance Financial Strength | | Aa3 | Aa3 | Aa3 | Aa3 |
| Standard & Poor's Ratings Services | Insurer Financial Strength | | AA | AA | AA | AA |
| | Senior Debt | A+ | | | | |
| | Subordinated Debt | | | | AA- | |

Irish Life Assurance Plc (ILA) is not part of the group ratings. During 2015, Fitch Ratings upgraded the insurer financial strength of ILA from A+ to AA- and Standard & Poor's Ratings Services upgraded the long-term credit rating of ILA from A to A+. Subsequent to December 31, 2015, on January 26, 2016, Fitch Ratings upgraded Irish Life's insurer financial strength to AA from AA-. During 2015, the ILA €200 million perpetual capital notes assumed on the acquisition of Irish Life were upgraded from BBB+ to A- by Fitch Ratings and from BBB+ to A- by Standard & Poor's Ratings Services. Subsequent to December 31, 2015, on January 26, 2016, Fitch Ratings upgraded the rating of these notes from A- to A.

## RISK MANAGEMENT

Effective risk management requires comprehensive processes to identify, assess and control the Company’s risk exposures. Risk management is based on guiding principles applied consistently across all categories of risk and include:

- **Culture:** Disciplined risk management permeates throughout the Company and reflects the collective sense of responsibility to fulfill policyholder promises and safeguard the Company's financial strength and reputation;
- **Control:** Clearly defined risk policies and effective internal controls are key elements of risk governance;
- **Accountability:** Individuals authorized to commit the Company to courses of action are fully accountable for associated risks and their incentives are aligned with the Company’s overall business objectives; and
- **Oversight:** The Risk Function independently monitors and challenges risk-taking activities.

The Company's risk governance model operates based on three lines of defense:

- **First line:** Business segments and support functions have primary responsibility for identifying and managing the risks inherent in the products, activities, processes and systems for which they are accountable;
- **Second line:** The Risk Function is primarily accountable for independent oversight of risk-taking; in this role, the Risk Function receives support from other second line functions including Actuarial, Compliance and Finance; and
- **Third line:** Internal Audit is accountable for independent assurance and validation of the design and effectiveness of the Company's risk management controls, processes and systems.

The Risk Function is embedded throughout the Company's businesses to ensure an integrated approach to managing current and emerging risks. The Risk Function supports the management of risk through the development and continuous improvement of effective risk management processes, which include the creation of appropriate controls, independent oversight and constructive challenge.

### *RISK MANAGEMENT ORGANIZATION*

The Board of Directors is ultimately responsible for the Company's governance principles and policies. These include the Enterprise Risk Management (ERM) Policy, which establishes the guiding principles of risk management, and the Risk Appetite Framework (RAF), which reflects the aggregate levels and types of risk that the Company is willing to tolerate in its business activities and operations.

The Board of Directors addresses risk management primarily through its Risk Committee, which is responsible for:

- Approving and oversight of the ERM, credit, market, insurance and operational risk policies;
- Approving the risk limit framework;
- Monitoring adherence to risk limits and to risk policies, including reviewing policy exceptions;
- Reviewing top risk issues, exposures, emerging risks and the Company’s risk culture;
- Reviewing stress testing including Dynamic Capital Adequacy Testing (DCAT), and Own Risk Solvency Assessment (ORSA); and
- Reviewing the performance and compensation of the Company's Chief Risk Officer (CRO) and providing input on appointment or removal.

Members of the Board Risk Committee are independent of management. The Governance and Nominating Committee of the Board of Directors regularly assess Board and Board Committee effectiveness.

| Key Risk Management Bodies | | Compliance | Internal Audit |
|---|---|---|---|
| Board of Directors | | | |
| Risk Committee | | | |
| Executive Risk Mgmt Committee (ERMC) | | | |
| **Risk Specific Oversight Committees** | **Regional Business Segment ERMCs** | | |
| Credit Risk Management Committee | Canada | | |
| Market Risk Committee | U.S. | | |
| Insurance Risk Committee | Europe/Reinsurance | | |
| Operational Risk Committee | | | |

Under the Company's Board Risk Committee, the Executive Risk Management Committee (ERMC) oversees all forms of risk and implements the risk management framework. Four enterprise-wide sub-committees provide oversight of each of the key risk categories and regional ERMCs monitor all risk categories for businesses and operations within their respective segments. Other Board and Executive Management Committees also have certain responsibilities to ensure a comprehensive and effective framework of controls is in place to manage all risks.

The Company's CRO reports directly to the President and Chief Executive Officer (CEO) and to the Board Risk Committee. The Company's CRO leads the Risk Function and chairs the ERMC.

The Company's CRO is accountable to the Board Risk Committee for reporting on compliance with the ERM Policy and the RAF as well as for escalating matters that require attention, such as policy breaches and exceptions.

Risk resources and capabilities are aligned with the Company's businesses through local proximity and central areas of expertise and efficiency. Central expert resources embed common global processes into local responsibilities, support efficiency and provide a centre of expertise. Regional CROs, representing Canada, U.S. and Europe, have dual reporting relationships, both to the Company's CRO and to the leaders of their respective regions. Their key responsibilities include:

- Providing independent risk oversight and advisory support for all risk-taking activities across their region;
- Implementing the Company’s Enterprise Risk Management Framework for their region and monitoring compliance with the Framework.

### *RISK APPETITE FRAMEWORK*

The Company has a Risk Appetite Framework approved by the Board of Directors. This framework includes a risk strategy fully aligned with the business strategy; a Risk Appetite that reflects the levels and types of risk that the Company is willing to accept to achieve its business objectives; and enterprise risk limits, which are further broken down by business unit and risk type.

The Company’s Risk Appetite Statement has four key components:

- **Strong Capital Position**: The Company maintains a strong balance sheet and does not take risks that would jeopardize its financial strength;
- **Mitigated Earnings Volatility**: The Company seeks to avoid substantial earnings shortfalls by managing risk concentration, limiting exposure to more volatile lines of business and seeking to diversify across various risk dimensions (e.g. product, distribution channel, counterparty and geography);
- **Strong Liquidity**: The Company maintains a high quality, diversified investment portfolio with sufficient liquidity to meet the demands of policyholder and financing obligations under normal and stressed conditions. The Company takes liquidity into consideration when designing products and entering into transactions; and
- **Maintaining the Company’s Reputation**: The Company considers the potential reputational impact of all business activities and operations.

***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 and any associated breaches are managed and mitigated.

Risk identification requires the structured analysis of the current and emerging risks facing the Company, so that they are understood and appropriately controlled. Processes ensure risks are considered, assessed and prioritized in all business initiatives and changes, including investment strategies, product design, significant transactions, annual planning and budgeting as well as potential mergers/acquisitions.

The Company has processes in place to continually identify risk exposures and where appropriate develops mitigation strategies to pro-actively 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 that includes approved risk limits, key risk indicators and early-warning triggers to ensure appropriate escalation and resolution of potential issues in a timely manner.

Risk measurement provides the means to quantify the risk profile, which can then be compared to the Company's approved risk limits.

Risk metrics used at the Company include capital at risk, liquidity and earnings at risk. Any new business development or change in strategy warrants an independent assessment of risk and potential impact on reputation, including measurement of the impact on capital, earnings and liquidity. Stress testing is used to evaluate risk exposures against risk limits. 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.

A key responsibility of the Risk Function is to ensure that the risk appetite is applied consistently across the Company and limits are established such that risk exposures comply with the risk strategy, 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. Both current and emerging risks are monitored.

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. Changes to the risk profile and any proposed plans that align the risk profile relative to the risk appetite are also identified.

A clearly defined escalation protocol has been established in respect of breaches of the RAF, risk policies or operating standards and guidelines. Remediation plans are reviewed by the Risk Function and escalated to designated management and Board committees.

## RISK MANAGEMENT AND CONTROL PRACTICES

Insurance companies are in the business of assessing, structuring, pricing, assuming and managing risk. The types of risks are many and varied, and will be influenced by factors both internal and external to the businesses operated by the insurer. These risks, and the control processes used to manage the risks, may be broadly grouped into four categories:

1. Insurance Risks
2. Credit Risks
3. Market and Liquidity Risks
4. Operational/Other Risks

### *INSURANCE RISKS*

**Insurance Risk Description**
Insurance risk arises from the risk associated with contractual promises and obligations made under insurance contracts. Exposure to this risk results from adverse events occurring under specified perils and conditions covered by the terms of an insurance policy.

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).

**Insurance Risk Management**
By their nature, insurance products involve commitments by the insurer to provide services and financial obligations with coverage for extended periods of time. In order to provide insurance protection profitably, 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 might impact these assumptions. Although pricing on some products is guaranteed throughout the life of the contract, insurance contract liability valuation requires regular updating of assumptions to reflect emerging experience. Ultimate profitability will depend upon the relationship between actual experience and pricing assumptions over the contract period.

The Company maintains Corporate Product Design and Pricing Risk Management Policies and Corporate Reinsurance Ceded Risk Management Policies, which are reviewed and approved by the Board of Directors of the principal operating subsidiaries. These policies are intended to ensure that consistent guidelines and standards for the product design and pricing risk management processes and reinsurance ceded risk management practices associated with insurance business are followed across the Company. These policies outline the requirements of corresponding policies, including approval practices, that each line of business is required to develop, maintain and follow.

The Company maintains a Corporate Actuarial Valuation Policy, which sets out the documentation and control standards that are designed to ensure that valuation standards of the Canadian Institute of Actuaries and of the Company are applied across all lines of business and jurisdictions. Certifying Actuaries confirm their compliance with this policy quarterly.

The Company issues both participating and non-participating life insurance policies. The Company maintains accounts in respect of participating policies separately from those maintained in respect of other policies, as required by the Insurance Companies Act (Canada). Participating policies are those that entitle the holder of the policy to participate in the profits of the participating accounts of the Company pursuant to a policy for determining dividends to be paid to participating policyholders. The Company maintains Participating Policyholder Dividend Policies and Participating Account Management Policies, approved by the Board of Directors of the principal operating subsidiaries, which govern the management of participating accounts and provide for the distribution of a portion of the net earnings in the participating account as participating policyholder dividends. The Company also maintains methods for allocating to the participating account investment income, expenses and taxes of the Company. The Appointed Actuaries opine and annually report to the Board of Directors of the principal operating subsidiaries on the fairness and equity of these methods and that any participating policyholder dividends declared are in accordance with the Participating Policyholder Dividend Policy.

The following identifies the key insurance risks and risk management strategies used by the Company.

| Risk | Management of Risk |
|---|---|
| **Claims Mortality and Morbidity** | |
| Mortality relates to the occurrence of death and morbidity relates to the incidence and duration of disability insurance claims, the incidence of critical conditions for critical illness insurance, and the utilization of health care benefits. There is a risk that the Company mis-estimates the level of mortality or morbidity, or accepts customers who generate worse mortality and morbidity experience than expected. | 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.<br>Underwriting limits control the amount of risk exposure.<br>Underwriting practices control the selection of risks insured for consistency with claims expectations.<br>Underwriting policies have been developed to support the long-term sustainability of the business. The insurance contract liabilities established to fund future claims include a provision for adverse deviation, set in accordance with professional standards. This margin is required to provision for the possibilities of mis-estimation of the best estimate and/or future deterioration in the best estimate assumptions.<br>The Company sets and adheres to retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.<br>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 benefits usually constrained by contractual limits or in the case of participating policies through future changes in policyholder dividends.<br>Effective plan design and claims adjudication practices, for both morbidity and mortality risks are critical to the management of the risk. |
| **Concentration** | |
| For Group life products, exposure to a multiple death scenario, due to concentration of risk in employment locations for example, could have an impact on financial results. | Risk concentrations are monitored for new business and renewals.<br>Plan design features and medical underwriting limit the amount of insurance on any one life. 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. |

| | |
|---|---|
| **Healthcare Cost Inflation** | |
| For Group healthcare products, inflation and utilization will influence the level of claim costs. Claims utilization can be difficult to predict. The impact of aging, which plays a role in utilization, is well documented; however, the introduction of new services, such as breakthrough drug therapies, has the potential to substantially escalate benefit plan costs. | The Company manages the impact of these and similar factors through plan designs that limit new costs and long-term price guarantees, and through pricing that considers demographic and other trend factors. |
| **Longevity** | |
| Annuitants could live longer than was estimated by the Company. | Business is priced using prudent mortality assumptions, which take into account recent Company and industry experience and the latest research on expected future trends in annuitant mortality.<br>Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.<br>The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to limit annuity payments to those contractually entitled to receive them and helps ensure mortality data used to develop pricing assumptions is as complete as possible. |
| **Policy Termination** | |
| Many products are priced and valued to reflect the expected duration of contracts. There is a risk that the contract may be terminated before expenses can be recovered, to the extent that higher costs are incurred in early contract years. Risk also exists where the contract is terminated later than assumed, on certain long-term level premium products where costs increase by age. The risk also includes the potential cost of cash flow mismatch on book value products. | Business is priced using prudent policy termination assumptions, which take into account recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated for future new issues as necessary.<br>The Company also incorporates early surrender charges into contracts and incorporates commission claw backs in its distribution agreements to reduce unrecovered expenses.<br>Policyholder taxation rules in many jurisdictions encourage the retention of insurance coverage. |
| **Expense Management** | |
| Increases in operating expenses could reduce profit margins. | Expense management programs are regularly monitored to control unit costs and form a component of management incentive compensation plans. |
| **Interest Rate Pricing and Repricing** | |
| Products are priced and valued based on the investment returns available on the assets that support the insurance and investment contract liabilities. If actual investment returns are different from those implicit in the pricing assumptions, actual returns in a given period may be insufficient to cover contractual guarantees and commitments or insurance and investment contract liability requirements. Products with long-term cash flows and pricing guarantees carry more risk. | There is regular and ongoing communication between pricing, valuation and investment management to establish appropriate interest rate assumptions, with a focus on closely matching assets and liabilities to minimize reinvestment risks, bearing in mind assets may not be available to match the liabilities, especially at longer durations. |
| **Reinsurance Assumed** | |
| The reinsurance business in particular has exposure to natural catastrophic events that result in property damage. As retrocessionaire for property catastrophe risk, the Company generally participates at significantly 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 on an ongoing basis and incorporates their experience in pricing models to ensure that the compensation is adequate for the risk undertaken. |

| **Investment Guarantees** | |
|---|---|
| A significant decline in market values could increase the cost to the Company associated with segregated fund death, maturity, income and withdrawal guarantees. In addition, lower interest rates and increased policyholder utilization could increase the cost to the Company associated with general fund account guarantees, segregated fund income and withdrawal guarantees. | Prudent product design, effective marketing, asset allocation within client portfolios and our broad distribution within Canada and the U.S., all contribute to a significantly diverse profile of in-force segregated funds, issued steadily over many years, which helps to mitigate exposure in Canada and the U.S. to guarantees related to segregated funds.<br>The Company has implemented a hedging program for segregated funds with withdrawal guarantees. This program consists of entering into equity futures, currency forwards, interest rate futures and swaps to mitigate exposure to the movement in the cost of withdrawal guarantees due to changes in capital markets. |

## *CREDIT RISKS*

**Credit Risk Description**

Credit risk arises from an obligor's potential inability or unwillingness to fully meet its on and off-balance sheet 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 Risk Management**

The Company's credit risk management principles include an internal assessment of obligors' creditworthiness based on a thorough and objective analysis of business risk, financial profile, structural issues, security ranking and covenants. The assessment uses a combination of ongoing bottom-up credit analysis and top-down strategic views on the economy and industry sectors.

The Company has established credit risk processes which are designed to ensure that the Company has identified existing and emerging credit risks, and that these risks have been assessed against the RAF and risk limits, breaches have been escalated and appropriate risk mitigation strategies have been deployed.

The following identifies the key credit risks and risk management strategies used by the Company.

| Risk | Management of Risk |
|---|---|
| The risk of loss if debtors, counterparties or intermediaries are unable or unwilling to fulfill their financial obligations. | It is Company policy to acquire only investment grade assets and minimize undue concentration of assets in any single geographic area, industry and company.<br>Guidelines specify minimum and maximum limits for each asset class.<br>Credit ratings for bonds are determined by an internal credit assessment, taking into consideration the ratings assigned by recognized rating agencies.<br>These portfolios are monitored continuously and reviewed regularly with the Board of Directors or the Investment Committees. |
| The Company is a user of reinsurance and manages the associated reinsurance risk. | Underwriting guidelines set out minimum criteria for reinsurance counterparties.<br>The Company cedes insurance risk in order to mitigate insurance risk.<br>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 Corporate Reinsurance Ceded Risk Management Policy.<br>There are a limited number of large providers of reinsurance globally. By nature, the Company is exposed to systemic risk as well as larger individual exposures and seeks to limit the exposure to these companies in other areas. The level of investment in bonds or equities issued by these reinsurers is closely monitored. Reinsurance counterparty risk is also limited by seeking protection in the form of collateral or funds withheld arrangements where possible. |
| The Company engages with counterparties for its use of derivatives. The Company uses derivatives for risk mitigation purposes. | Investment policies include derivative counterparty limits and the Company seeks collateral arrangements where possible. Derivative products are traded through exchanges or with counterparties approved by the Board of Directors or the Investment Committees of the Board of Directors.<br>The Company regularly monitors investment markets and economic conditions and may execute from time-to-time risk reduction programs, such as hedging. |

## *MARKET AND LIQUIDITY RISKS*

**Market and Liquidity Risk Description**

Market risk and liquidity risk arise 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 the risk results from investment and other business activities, which create on and off-balance sheet positions.

**Market and Liquidity Risk Management**

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 through the immunization of the assets and liabilities, either directly or indirectly.

The following identifies the key market and liquidity risks and risk management strategies used by the Company.

| Risk | Management of Risk |
|---|---|
| **Interest Rate Risk** | |
| Interest rate risk exists if the cash flows of the liabilities and those of the assets supporting these liabilities are not closely matched and interest rates change causing a difference in value between the assets and liabilities. | Interest rate risk is managed by investing in assets that are suitable for the products sold.<br>For products with fixed and highly predictable benefit payments, investments are made in fixed-income assets that closely match the liability product cash flows. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. Protection against interest rate change is achieved, as any change in the fair market value of the liabilities will be offset by a similar change in the fair value of the assets.<br>For products with less predictable timing of benefit payments, investments are made in fixed-income assets with cash flows of shorter duration than the anticipated timing of the benefit payments. The Company regularly monitors market and liability developments and may execute from time-to-time risk reduction programs, such as hedging.<br>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. |
| **Equity Market Risk** | |
| Given the volatility in equity markets, income in any year may be adversely affected by decreases in market values, notwithstanding the Company's long-term expectation of investment returns appropriate for this asset class.<br><br>Returns from equities backing a portion of the non-adjustable life and living benefits insurance contract liabilities may be insufficient. | The Company's investment policy guidelines provide for prudent investment in equity markets within clearly defined limits. Exposure to common stocks and investment properties is managed to provide returns that are consistent with the requirements of the underlying segment.<br>The Investment Policy sets out limits for equity investments. For those used to support non-adjustable policies, the time horizon for such investments is very long-term and the policy elements backed by these equities pose little or no liquidity risk. The allowable level of equities has been determined after carefully evaluating the tolerance for short-term income statement volatility and the balance between this volatility and long-term economic value. |

| Liquidity Risk | |
|---|---|
| The risk of loss if insufficient funds are available to meet anticipated operating and financing commitments and unexpected cash demands. | The Company closely manages operating liquidity through cash flow matching of assets and liabilities and maintaining adequate liquidity sources to cover unexpected payments. The Company forecasts earned and required yields to ensure consistency between policyholder requirements and the yield of assets. |
| There is a risk of default if the Company is unable to post adequate collateral with derivative counterparties. | The Company carefully considers whether to enter into derivative arrangements on a collaterized or uncollaterized basis. Where the Company or its subsidiaries enter into collaterized arrangements, the Company periodically tests the availability of suitable collateral under stress scenarios. |
| In the normal course of its Reinsurance business, the Company provides LOCs to other parties, or beneficiaries. A beneficiary will typically hold a LOC as collateral in order 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 unable to renew existing LOCs at maturity. | Management monitors its use of LOCs 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 LOCs issued to the LOC beneficiaries for certain reinsurance treaties. Management staggers the maturities of its LOCs to reduce the renewal risk. |
| **Foreign Exchange Risk** | |
| 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 financial results. The Company has significant exposures to the U.S. dollar resulting from the operations of Great-West Financial and Putnam in the United States segment and Reinsurance and to the British pound and the euro resulting from operations in the U.K., Isle of Man, Ireland and Germany in the Europe segment.<br>The Company has net investments in foreign operations. In addition, the Company's debt obligations are mainly denominated in Canadian 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 (loss). 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 share capital and surplus. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted. | 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.<br>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.<br>Investments are normally denominated in the same currency as the liabilities they support.<br>Foreign currency assets acquired to back liabilities are generally converted back to the currency of the liabilities using foreign exchange contracts. |

| Foreign Exchange Risk (cont'd) | |
|---|---|
| • A 1% appreciation (depreciation) of the average exchange rate of the Canadian dollar to the U.S. dollar, British pound and euro together would decrease (increase) operating earnings in 2015 by $15 million.<br>• A 1% appreciation (depreciation) of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates together would decrease (increase) the unrealized foreign currency translation losses in accumulated other comprehensive income (loss) of shareholders' equity by $153 million as at December 31, 2015. | |
| **Derivative Instruments** | |
| There is a risk of loss if derivatives are used for inappropriate purposes. | Approved policies only allow derivatives to be used to hedge imbalances in asset and liability positions or as substitutes for cash instruments.<br>The Company's risk management process governing the use of derivative instruments requires that the Company act only as an end-user of derivative products, not as a market maker.<br>The use of derivatives may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts, as well as interest rate caps, floors and collars.<br>There were no major changes to the Company's and its subsidiaries' policies and procedures with respect to the use of derivative financial instruments in 2015. |

## *OPERATIONAL/OTHER RISKS*

**Operational Risk Description**
Operational risk is the risk of loss arising from potential issues related 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. This includes fraud, infrastructure, legal and regulatory, outsourcing, people, process and other risks.

**Operational Risk Management**
The Company implements controls to mitigate operational risk through integrated and complementary policies, procedures, processes and practices, with consideration given to the cost/benefit trade-off.

Through the Company's corporate insurance program, the Company transfers a portion of operational risk exposure by purchasing insurance coverage that provides some protection against unexpected material losses resulting from events such as criminal activity, property loss or damage and liability exposures. The Company also purchases certain insurance to satisfy legal requirements and/or contractual obligations. The nature and amount of insurance protection purchased is assessed with regard to the Company's enterprise-wide risk profile and the appetite and tolerance for the associated risks.

The following identifies the key operational and other risks and risk management strategies used by the Company.

| Risk | Management of Risk |
|---|---|
| **Operational Risk** | |
| There is a risk of direct or indirect loss resulting from inadequate or failed internal processes (including modelling and outsourcing risks), people and systems (including cyber risk) or from external events. Operational risk also includes risks arising from significant change management initiatives such as business model changes, mergers and acquisitions, major systems implementation, new product introductions and leadership changes. | The Company manages and mitigates internal operational risks through integrated and complementary policies, procedures, processes and practices. Human Resources hiring, performance evaluation, promotion and compensation practices are designed to attract, retain and develop the skilled personnel required. A comprehensive job evaluation process is in place and training and development programs are supported.<br>Each business area provides training designed for their specific needs and has developed appropriate internal controls. 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 applies a robust project management discipline to all significant initiatives.<br>Appropriate security measures protect premises and information. The Company has emergency procedures in place for short-term incidents or outages and is committed to maintaining business continuity and disaster recovery plans in every business location for the recovery of critical functions in the event of a disaster, which include offsite backup data storage and alternative work area facilities. |
| **Changes in Managed Asset Values** | |
| The Company's investment fund businesses are fee-based, with revenue and profitability based primarily on the market value of investment fund assets under management. Accordingly, 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 (including purchases and redemptions). Factors that could cause assets under management and revenues 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 and income. | Through its wide range of funds, the Company seeks to limit its risk exposure to any particular financial market. In its Canadian segregated fund business, the Company encourages its clients to follow a diversified long-term asset allocation approach to reduce the variability of returns and the frequency of fund switching. As a result of this approach, a significant proportion of individual segregated fund assets are in holdings of either a diversified group of funds or "fund of funds" investment profiles, which are designed to improve the likelihood of achieving optimal returns within a given level of risk.<br>The investment process for assets under management is primarily based upon fundamental research with quantitative research and risk management support. Fundamental research includes valuation analysis, economic, political, industry and company research, company visits, as well as the utilization of such sources as company public records and activities, management interviews, company prepared information, and other publicly available information, as well as analyses of suppliers, customers and competitors. Quantitative analysis includes the analysis of past trends and the use of sophisticated financial modeling to gauge how particular securities may perform. Putnam's risk management capability analyzes securities across all the Putnam Funds and other portfolios to identify areas of over concentration and other potential risks.<br>In some cases, the Company charges fees that are not related to assets but are based on premiums or other metrics, which reduces the sensitivity of income to market movements. |

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|---|---|
| **Staff Recruitment/Retention** | |
| The Company is highly dependent on its ability to attract, retain and motivate highly skilled, and often highly specialized, personnel. The market for these professionals is extremely competitive and is increasingly characterized by movement among different organizations. The loss of the services of key personnel or failure to attract replacement or additional qualified personnel could negatively affect financial performance. Failure to offer or maintain competitive compensation packages may result in increased levels of turnover among these professionals. Any increase in compensation to attract or retain key personnel could result in a decrease in net earnings. Departure of key personnel could lead to the loss of clients, which could have an adverse effect on results of operations and financial condition. | The Company uses external consultants to obtain benchmark compensation data and works closely with the Board of Directors to develop competitive compensation packages for key personnel.<br>The Company also uses incentive based compensation instruments such as share grants of Putnam and Lifeco share options to retain and attract key personnel. Compensation of this type generally links the performance of the Company and an employee's ultimate compensation. |
| **Contract Termination** | |
| The retirement and investment services and asset and wealth management businesses derive substantially all of their revenue and net earnings from investment advisory agreements and service agreements with mutual funds and from other investment products. The contracts are terminable on relatively short notice without cause and management and distribution fees must be approved annually. The termination of, or failure to renew, one or more of these agreements or the reduction of the fee rates applicable to such agreements, could impact the Company's revenues and profits. | The Company devotes substantial resources to the investment management process and seeks to achieve consistent, dependable and superior performance results over time for all client portfolios. Assets under management are spread across a wide range of investment objectives, which creates diversity in the product lines.<br>The Company's exposure to the segregated and mutual funds is spread across many individual funds. Considerable resources are devoted to maintaining a strong relationship with the Plan trustees or other applicable fiduciaries of the funds under the relevant agreements. Company representatives meet frequently with the various committees, Plan trustees and other fiduciaries to fulfill legal reporting requirements, keep them apprised of business developments, renegotiate contracts and/or address any issues they may have. |
| **Access to Distribution** | |
| The Company's ability to market its products is significantly dependent on its access to a client base of individual, corporate and public employee pension funds, defined contribution plan administrators, endowment funds, domestic and foreign institutions and governments, insurance companies, securities firms, brokers, banks, and other 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 advisor and 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. | The Company has a broad network of distribution relationships. Products are distributed through numerous broker dealers, managing general agencies, financial planners, banks and other financial institutions. In addition, Putnam has certain strategic alliances with investment management firms internationally. Putnam relies on its extensive global distribution group to market the Putnam Funds and other investment products across all major retail, institutional and retirement plan distribution channels. |

| **Holding Company Structure** | |
|---|---|
| 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 the 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 Great-West Life, London Life, CLFC, Canada Life, Great-West Financial, and their subsidiaries and certain subsidiaries of Putnam. There are considerable risks and benefits related to this structure. | Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company level. Additional liquidity is available through established lines of credit and the Company's demonstrated ability to access capital markets for funds. Management actively monitors the regulatory laws and regulations at both the holding company and operating company levels to ensure ongoing compliance. |
| **Ratings** | |
| Financial strength, claims paying ability ratings and ratings related to the issuance of financial instruments represent the opinions of rating agencies regarding the financial ability of Lifeco and its principal subsidiaries to meet its obligations, and are an important factor in establishing the competitive position of life insurance companies and affect financing costs. Rating organizations regularly analyze the financial performance and condition of insurers, including the Company's subsidiaries. Any ratings downgrades, or the potential for such downgrades, of the Company's subsidiaries could increase surrender levels of their insurance and annuity products and constrain the Company's ability to market and distribute products and services, and damage the Company's relationships with creditors, which may adversely impact future business prospects. These ratings represent an important consideration in maintaining customer confidence in the Company's subsidiaries and in their ability to market insurance and annuity products. | The Company strives to manage to a target credit rating by diligently monitoring the evolution of the rating criteria and processes of the various rating agencies. |

| **Future Acquisitions** | |
|---|---|
| From time-to-time, Lifeco and its subsidiaries evaluate existing companies, businesses, products and services, and such review could result in Lifeco or its subsidiaries disposing of or acquiring businesses or offering new, or discontinuing existing products and services. In the ordinary course of their operations the Company and its subsidiaries consider and discuss with third parties the purchase or sale of companies, businesses or business segments. If effected, such transactions could be material to the Company in size or scope, and could result in changes in the value of the securities of Lifeco, including the common shares of Lifeco. | Lifeco undergoes extensive due diligence upon any consideration of acquiring or disposing of businesses or companies or offering new, or discontinuing existing, products and services.<br>In its consideration of strategic acquisitions, the Company may determine it to be prudent to hold additional capital for contingencies that may arise during the integration period following an acquisition. |
| **Legal and Regulatory Risk** | |
| The Company and certain of its principal subsidiaries are subject to various legal and regulatory requirements imposed by common and civil law, legislation and regulation in Canada, the U.S., the U.K., Ireland and other jurisdictions applicable to reporting issuers and to insurance companies and companies providing investment management and other financial services (including supervision by governmental authorities in the jurisdictions in which they carry on business). These requirements, which include capital adequacy, liquidity and solvency requirements, investment restrictions, restrictions on the sale and marketing of insurance and annuity products and on the business conduct of insurers, asset managers and investment advisors, are primarily intended to protect policyholders, beneficiaries and investment advisory clients, not shareholders. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements, which in turn could lead to financial sanctions or penalties and damage to the Company's reputation, could have a material adverse effect on the Company. Regulators may reassess capital requirements from time-to-time and require additional capital to be held in various regulated subsidiaries.<br>As well, regulatory capital requirements influence liquidity and the amount of capital that must be held by various regulated subsidiaries of the Company in particular jurisdictions and constrain the movement of capital from jurisdiction to jurisdiction, and accordingly such requirements may restrict the ability of such subsidiaries to declare and pay dividends to the Company.<br>Potential regulatory changes in Canada include new guidance on capital requirements (OSFI's "Roadmap") currently expected in 2018, as well as new capital requirements for European entities, Solvency II basis, effective January 1, 2016. | The Company monitors compliance with the legal, regulatory, accounting and other standards and requirements in all jurisdictions where it conducts business and assesses trends in legal and regulatory change to keep business areas current and responsive.<br>The risk of legal actions is managed through the various risk management and control practices described in this "Risk Management and Control Practices" section of this MD&A. |

| **Legal and Regulatory Risk (cont'd)** | |
|---|---|
| New IFRS guidance including a revised standard on Insurance Contracts is being developed that may introduce significant changes to the valuation of insurance contract liabilities and the presentation of results in financial statements. While there are significant uncertainties, as drafted, these accounting and regulatory developments may impact the financial position of the Company by subjecting the Company to widely fluctuating levels of reserve and capital requirements, which would increase earnings volatility, therefore impacting the Company's flexibility to distribute cash to its providers of capital in the future.<br>The Company and its subsidiaries operate in an increasingly regulated and litigious environment and as such 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 be material to the Company, or could result in significant damage to the reputation of the Company, which could in turn adversely impact future business prospects. | |
| **Reputational Risk** | |
| In the course of its business activities, the Company may be exposed to the risk that some actions may lead to damage to the Company's reputation and hence damage to its future business prospects. These actions may include unauthorized activities of employees or other people associated with the Company, inadvertent actions of the Company that become publicized and damage the Company's reputation, regular or past business activities of the Company that become the subject of regulator or media scrutiny and, due to a change of public perception, cause damage to the Company, or any other action or activity that gives rise to damage to the Company's general reputation. | The Company has ongoing controls to limit the unauthorized activities of people associated with the Company. The Company has adopted a Code of Business Conduct and Ethics, which sets out the standards of business conduct to be followed by all directors, officers and employees of the Company. Further, the directors, officers and employees are required to sign off annually on their compliance with the Code of Business Conduct and Ethics. The Company also reacts to address situations that may escalate to a level that might give rise to damage to its reputation. |

| **Reinsurance** | |
|---|---|
| Through its subsidiaries, the Company is both a user and a provider of reinsurance, including both traditional reinsurance ceded, which is undertaken primarily to mitigate against assumed insurance risks, and structured reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.<br>The Company is required to pledge amounts of collateral or deposit amounts with counterparties in certain reinsurance transactions according to contractual terms. These arrangements could require additional requirements in the future depending on regulatory and market developments. While there are significant uncertainties in these developments and the associated impact on the financial position of the Company, these may impact the Company's financial flexibility. | The Company accounts for all reinsurance transactions in accordance with IFRS. In some cases, IFRS may differ from the accounting treatment utilized by the Company's reinsurers or its reinsureds based upon the rules applicable to them in their reporting jurisdictions. The Company believes that reinsurance transactions that it has entered into are appropriate and properly accounted for by the Company.<br>The Company maintains a Corporate Reinsurance Ceded Risk Management policy, which is reviewed and approved by the operating subsidiaries. Annually, the Chief Actuaries report to the Risk Committees, confirming compliance with the policy. |
| **Support Systems and Customer Service Functions** | |
| 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 systems could have an adverse effect on the Company's results of operations and financial condition. In addition, any delays or inaccuracies in obtaining pricing information, processing client transactions or providing reports, in addition to any inadequacies in other customer service could lead to loss of client confidence, harm to the Company's reputation, exposure to disciplinary action, and liability to the Company's clients. As part of normal operations, the Company maintains and transmits confidential information about its clients and proprietary information relating to its business operations. The Company could be subject to losses if it fails to properly safeguard sensitive and confidential information. | The Company's operations work with its systems and service providers to obtain reliability, security and efficiency of information systems. The Company utilizes high quality external systems and maintains controls relating to information security and also works with service providers to verify and assess the sufficiency of their controls. |
| **Pension Risk** | |
| The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans; the costs of these defined benefit plans are dependent on a host of factors including discount rates, returns on plans assets, compensation costs, inflation risks, employee service life, government regulations, and variances between expected and actual actuarial results. In the event that the pension plan assets do not achieve sustained growth over time and potential negative impact of the cost factors above, the Company could have a significant increase in pension funding obligations and costs that could reduce cash flows and profit margins. In certain jurisdictions, recent changes and proposed reform to government regulations could have a significant impact on the plans. | Pension risk is managed by regular monitoring of the plans, pension regulations and other factors that could impact the expenses and cash flows of the Company.<br>The Company has a Pension Committee that provides oversight for the pension plans of the Company. Pension plan regulations are monitored on an ongoing basis to assess the impact of changes to government regulations on the status, funding requirements and financial results of the Company.<br>Plan assumptions are reviewed regularly both internally and by external advisors and updated as necessary to reflect the latest research on expected future trends. The pension plans and assumptions are subject to external audit on an annual basis.<br>The Company has introduced defined contribution plans for new employees in a number of jurisdictions in order to reduce the risks to the Company inherent in defined benefit plans. |

| **Environmental Risk** | |
|---|---|
| Environmental risk is the risk of direct or indirect loss to the Company's financial results or operations or reputation resulting from the impact of environmental issues or costs associated with changes in environmental laws and regulations. | The Company endeavours to respect the environment and to take a balanced and environmentally sustainable approach to conducting business.<br>The Company will not knowingly acquire investments with significant environmental risks. 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. One of the Company's subsidiaries, GWL Realty Advisors Inc. (GWLRA) has an Environmental Management Plan (EMP) created to ensure compliance with applicable environmental legislation and outline best practice guidelines and procedures in responsible management practices designed to protect and preserve the environment and provide oversight on environmental matters on properties owned by the Company (Great-West Life, London Life and Canada Life) and third-party clients. The properties for which GWLRA provides property management services are also administered under the EMP to ensure compliance with applicable federal, provincial and municipal environmental legislation, by laws, codes, policies and undertaking a leadership position with their clients and within the real estate industry. GWLRA carries out ongoing reviews of environmental objectives, programs, policies and procedures to ensure consistency, effectiveness, quality and application, and establishes and maintains best practices through corporate programs and initiatives and emphasizes environmental awareness among staff, service providers and clients.<br>To quantify efforts in sustainability, GWLRA produces an annual Greenhouse Gas (GHG) Emissions Inventory Report for its assets under management. GWLRA also incorporates environmental, social and governance factors within its Annual Review, published in accordance with the Global Reporting Initiative G4 reporting guidelines. Assets under management are monitored nationally and measured for environmental performance, which includes energy and water consumption, GHG emissions and waste production and diversion rates. Monitoring is carried out together with third-party environmental consultants. GWLRA's property management and leasing functions are conducted in accordance with environmental laws and prudent industry practices. The Company strives to reduce its environmental footprint through energy conservation and waste reduction that entails recycling programs, periodic waste diversion audits and performance benchmarking.<br>For more information on the Company's environmental policies and initiatives, refer to the Public Accountability Statement available on the Canadian operating subsidiaries websites. The Company monitors relevant emerging issues, regulations and requirements through collaboration with its environmental and legal consultants. The Environmental Committee of GWLRA reviews policies and procedures on an annual basis and revises established policies and guidelines as required. |

## 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 global credit, equity and foreign exchange market conditions. The estimation of insurance contract liabilities relies upon investment credit ratings. The Company's practice is to use third-party independent credit ratings where available.

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 8 in the Company's December 31, 2015 annual consolidated financial statements for disclosure of the Company's financial instruments fair value measurement at December 31, 2015.

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 a normally 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 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 market value of an investment is not by itself 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 must be taken into consideration when evaluating impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs are recorded to adjust the carrying value to the estimated 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 loans, 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 income; therefore, a reduction due to impairment of these assets 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 intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the event that certain conditions have been met, the Company would be required to reverse the impairment charge or a portion thereof.

Goodwill and indefinite life intangible assets have been allocated to cash generating units (CGU), representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each cash generating unit groupings containing the assets to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use, which is calculated using the present value of estimated future cash flows expected to be generated.

***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 insurance and investment contract liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation of insurance contracts 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 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. Mortality improvement has been projected to occur for the next 25 years. In addition, appropriate provisions have been made for future mortality deterioration on term insurance. A 2% increase in the best estimate assumption would cause a decrease in net earnings of approximately $282 million.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 2% decrease in the best estimate assumption would cause a decrease in net earnings of approximately $314 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 $225 million.

***Property and casualty reinsurance*** – Insurance contract liabilities for property and casualty reinsurance written by 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 certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. 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 return*****s** – The assets that 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 and investment 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 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.

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 would not change the total provision for interest rates.
- The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios would not change the total provision for interest rates.

If sustained, however, the parallel shift could impact the Company's range of scenarios covered.

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholders' earnings of the Company of a 1% change in the Company's view of the range of interest rates to be covered by these provisions.

- The 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 $163 million causing an increase in net earnings of approximately $109 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 $614 million causing a decrease in net earnings of approximately $430 million.

In addition to interest rates, the Company is also exposed to movements in equity markets.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities; for example segregated fund products and products with long-tail cash flows. Generally, these liabilities will fluctuate in line with equity values. There will be additional impacts on these liabilities as equity values fluctuate.

- A 10% increase in equity values would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately $53 million, causing an increase in net earnings of approximately $45 million.
- A 10% decrease in equity values would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $139 million, causing a decrease in net earnings of approximately $108 million.

The best-estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows.

- A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately $534 million causing an increase in net earnings of approximately $433 million.
- A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $573 million causing a decrease in net earnings of approximately $457 million.

***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 $108 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 has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of the term for renewable term policies in Canada and Reinsurance. 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 $602 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 resets (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 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 multinational 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.

The Company utilizes tax planning strategies involving multiple jurisdictions to obtain tax efficiencies. 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 implications of the transactions and events during 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 timing of the reversal of the asset.

The audit and review activities of the Canada Revenue Agency and other jurisdictions' tax authorities 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 certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. For most plans, active plan participants share in the cost 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. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets. The significant defined benefit plans of the Company's subsidiaries are closed to new entrants. All new hires are eligible only for defined contribution benefits. The Company's defined benefit plan exposure will continue to be reduced in future years. The defined contribution pension plans provide pension benefits based on accumulated employee and subsidiary Company 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 Company's pension plans and other post-employment benefits refer to note 24 in the Company's December 31, 2015 annual consolidated financial statements.

For the defined benefit plans of the Company's subsidiaries, the 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 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Actuarial assumptions used to determine benefit cost** | | | | |
| Discount rate - past service liabilities | **3.5 %** | 4.7 % | **3.9 %** | 4.8% |
| Discount rate - future service liabilities | **3.6 %** | 4.7 % | **4.0 %** | 4.8% |
| Rate of compensation increase | **3.2 %** | 3.3 % | **—** | — |
| Future pension increases[1] | **1.1 %** | 1.8 % | **—** | — |
| **Actuarial assumptions used to determine defined benefit obligation** | | | | |
| Discount rate - past service liabilities | **3.8 %** | 3.5 % | **4.1 %** | 3.9% |
| Rate of compensation increase | **3.2 %** | 3.2 % | **—** | — |
| Future pension increases[1] | **1.5 %** | 1.1 % | **—** | — |
| **Medical cost trend rates:** | | | | |
| Initial medical cost trend rate | | | **5.2 %** | 5.2% |
| Ultimate medical cost trend rate | | | **4.5 %** | 4.5% |
| Year ultimate trend rate is reached | | | **2029** | 2029 |

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

***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% increase** | | **1% decrease** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Defined benefit pension plans:** | | | | |
| Impact of a change to the discount rate | **$ (1,026)** | $ (992) | **$ 1,353** | $ 1,309 |
| Impact of a change to the rate of compensation increase | **314** | 334 | **(272)** | (276) |
| Impact of a change to the rate of inflation | **551** | 593 | **(536)** | (474) |
| **Other post-employment benefits:** | | | | |
| Impact of a change to assumed medical cost trend rates | **34** | 34 | **(28)** | (29) |
| Impact of a change to the discount rate | **(44)** | (45) | **54** | 55 |

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.

***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 $158 million ($180 million in 2014) to the pension plans and made benefit payments of $19 million ($18 million in 2014) for post-employment benefits. The Company's subsidiaries expect to contribute $179 million to the benefit pension plans and make benefit payments of $19 million for post-employment benefits in 2016.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Due to the evolving nature of International Financial Reporting Standards (IFRS), there are a number of IFRS changes that impacted the Company in 2015, 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 IFRS for *Annual Improvements 2010 - 2012 Cycle*, *Annual Improvements 2011 - 2013 Cycle* and IAS 19, *Employee Benefits* effective January 1, 2015. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

IFRS that have changed or may change subsequent to 2015 and could impact the Company in future reporting periods, are set out in the following table:

| New Standard | Summary of Future Changes |
|---|---|
| IFRS 4 - *Insurance Contracts* | The IASB issued a revised IFRS 4, *Insurance Contracts* exposure draft proposing changes to the accounting standard for insurance contracts in June 2013. The IASB continues to deliberate the proposals in this exposure draft. The proposed standard differs significantly from the Company's current accounting and actuarial practices under the Canadian Asset Liability Method (CALM) and is expected to produce more volatile financial results. The Company is actively monitoring developments in this area. The Company will continue to measure insurance contract liabilities under current accounting and actuarial policies, including CALM, until a new IFRS for insurance contract measurement is issued and effective. |
| IFRS 9 - *Financial Instruments* | In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments* to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard provides changes to financial instruments accounting for the following:<br>• 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;<br>• impairment based on an expected loss model; and<br>• hedge accounting that incorporates the risk management practices of an entity.<br>On December 9, 2015, the IASB published an exposure draft with proposed amendments to IFRS 4, *Insurance Contracts* (IFRS 4) to alleviate the temporary consequences of the different effective dates with IFRS 9, *Financial Instruments* (IFRS 9). Companies whose business model is to predominantly issue insurance contracts are allowed the option to defer the effective date of IFRS 9 until the earliest of the mandatory effective date of IFRS 4 or January 1, 2021. The Company is evaluating the impact of the adoption of this standard as well as the applicability of the exposure draft relating to the deferral. |
| IFRS 15 - *Revenue from Contracts with Customers* | In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers,* which provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. The revenue arising from insurance contracts, leases and financial instruments is not required to apply the revenue recognition requirements in IFRS 15. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer.<br>In September 2015, the IASB issued an amendment to IFRS 15 providing a deferral of one year of the effective date of the standard, from January 1, 2017 to January 1, 2018. The Company is evaluating the impact of the adoption of this standard. |
| IFRS 16 - *Leases* | In January 2016, the IASB issued IFRS 16, *Leases,* which introduces new guidance for identifying leases as well as a new right-of-use accounting model for lessees, replacing the operating and finance lease accounting models that currently exist. The new accounting model will generally require all lessees to recognize lease assets and liabilities on the balance sheet, initially measured at the present value of unavoidable lease payments for all leases with a maximum possible term of more than 12 months.<br>In contrast to the significant changes for lessees, the new standard will retain many key aspects of the current lessor accounting model.<br>The standard is effective January 1, 2019. The Company is evaluating the impact of the adoption of this standard. |

| New Standard | Summary of Changes |
|---|---|
| *Annual Improvements 2012 - 2014 Cycle* | In September 2014, the IASB issued *Annual Improvements 2012 - 2014 Cycle* as part of its ongoing process to efficiently deal with non-urgent narrow scope amendments to IFRS. Five amendments were included in this issue relating to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 1, *First-time Adoption of International Financial Reporting Standards,* IAS 19, *Employee Benefits* and IAS 34 *Interim Financial Reporting.*<br><br>The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements. |
| IAS 16 - *Property, Plant and Equipment and IAS 38 - Intangible Assets* | In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets* that the use of revenue-based methods to calculate the depreciation of property, plant and equipment and intangible assets is not appropriate.<br><br>The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements. |
| IFRS 10 - *Consolidated Financial Statements and* IAS 28 - *Investments in Associates and Joint Ventures* | In September 2014, the IASB issued amendments to IFRS 10, *Consolidated Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures* to clarify that any gain or loss recognized in a transaction involving an associate or joint venture depends on whether the assets sold or contributed constitute a business as defined under IFRS 3, *Business Combinations.*<br><br>In December 2014, the IASB issued additional amendments to IFRS 10 and IAS 28 clarifying the accounting requirements for investment entities.<br><br>The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements. |
| IFRS 11 - *Joint Arrangements* | In May 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* on the accounting for acquisitions of an interest in a joint operation when the operations constitute a business as defined under IFRS 3, *Business Combinations.*<br><br>The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements. |
| IAS 1 - *Presentation of Financial Statements* | In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* to add clarity and flexibility to financial statement presentations, ensuring entities use judgment in applying materiality, and presentation of financial statements and structure of the notes.<br><br>The amendments are effective January 1, 2016. Adoption of these amendments is not expected to have a significant impact on the Company’s consolidated financial statements. |

## *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 Great-West Life and its operating subsidiaries, London Life and Canada Life; Great-West Financial and Putnam; together with Lifeco's corporate results.

For reporting purposes, the consolidated operating results are grouped into four reportable segments – Canada, United States, Europe and Lifeco Corporate – reflecting geographic lines as well as the management and corporate structure of the companies.

## CANADA

The Canada segment of Lifeco includes the operating results of the Canadian businesses operated by Great-West Life, London Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results. There are three primary business units included in this segment. Through the Individual Insurance business unit, the Company provides life, disability and critical illness insurance products to individual clients. Through the Wealth Management business unit, the Company provides accumulation products and annuity products for both group and individual clients in Canada. Through the Group Insurance business unit, the Company provides life, accidental death and dismemberment, critical illness, health and dental protection, creditor and direct marketing insurance as well as specialty products to group clients in Canada.

### BUSINESS PROFILE

#### INDIVIDUAL INSURANCE

In Canada, Individual Insurance consists of Individual Life Insurance and Living Benefits. Products and services are distributed through diverse, complementary channels: financial security advisors and brokers associated with Great-West Life; financial security advisors associated with London Life’s Freedom 55 Financial™ division and the Wealth & Estate Planning Group; and the distribution channels Canada Life supports, including independent advisors associated with managing general agencies (MGAs), as well as national accounts, including Investors Group.

The various distribution channels are accessed through distinct product labels offered by Great-West Life, London Life and Canada Life. Unique products and services are offered to meet the needs of each distribution channel to allow the Company to maximize opportunities while minimizing channel conflict.

#### WEALTH MANAGEMENT

The Wealth Management business unit consists of Individual Retirement & Investment Services (IRIS) and Group Retirement Services (GRS) product lines. The Company utilizes diverse, complementary distribution channels and is a leader in Canada for all Wealth Management product lines. Products are distributed through the same channels as described above for Individual Insurance as well as independent brokers, consultants and direct business for the Company's GRS business.

The individual lines of business access the various distribution channels through distinct product labels offered by Great-West Life, London Life, Canada Life and Quadrus Investment Services Ltd. (Quadrus). Unique products and services are offered to meet the needs of each distribution channel and customer to allow the Company to maximize opportunities while minimizing channel conflict.

#### GROUP INSURANCE

In Canada, the Company offers effective benefit solutions for small, medium and large plan sponsors. Through the Company’s extensive network of Group sales offices and Sales and Marketing Centres located across the country, it distributes its products through brokers, consultants and financial security advisors. The Company offers a wide range of Group products and services including life, accidental death and dismemberment, critical illness, disability, health and dental protection as well as specialty products.

The Company's creditor and direct marketing business, conducted through its Canada Life subsidiary, offers effective benefit solutions for large financial institutions, credit card companies, alumni and association groups. Canada Life is a leader in the creditor insurance business in Canada.

## MARKET OVERVIEW

### PRODUCTS AND SERVICES

#### INDIVIDUAL INSURANCE

The Company provides an array of individual insurance products that are distributed through multiple sales channels. Products are marketed under the Great-West Life, London Life and Canada Life brands.

| MARKET POSITION | PRODUCTS AND SERVICES | DISTRIBUTION |
|---|---|---|
| • Manages largest portfolio of life insurance in Canada as measured by premium(1)<br>• Pre-eminent provider of individual disability and critical illness insurance with 28% market share of in-force premium(1) | ***Individual Life Insurance***<br>• Term Life<br>• Universal Life<br>• Participating Life<br><br>***Living Benefits***<br>• Disability<br>• Critical Illness | ***Associated with:***<br>***Great-West Life Distribution***<br>• 2,896 Great-West Life financial security advisors<br>• 2,140 advisors associated with a number of intercorporate arrangements<br>• 6,202 independent brokers<br><br>***London Life Distribution***<br>• 3,700 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors<br><br>***Canada Life Distribution***<br>• 7,648 independent brokers associated with 35 MGAs<br>• 1,685 advisors associated with 14 national accounts<br>• 3,244 Investors Group consultants who actively sell Canada Life products<br>• 159 direct brokers and producer groups |

(1) As at September 30, 2015

**WEALTH MANAGEMENT**

The Company provides an array of savings and income products that are distributed through multiple sales channels. Products are marketed under the Great-West Life, London Life, Canada Life and Quadrus brands.

The Company offers a wide range of segregated funds through its multiple distribution channels including 97 London Life segregated funds to individual Freedom 55 Financial™ clients, 87 Canada Life segregated funds to individual Canada Life clients, 91 Great-West Life segregated funds to individual Great-West Life clients and over 200 segregated funds to Envision Group Capital Accumulation Fund clients.

Quadrus offers 51 mutual funds under the Quadrus Group of Funds™ brand and over 3,500 third-party mutual funds. Mackenzie Financial Corporation, a member of the Power Financial Corporation group of companies, administers the Quadrus Group of Funds.

| MARKET POSITION | PRODUCTS AND SERVICES | | DISTRIBUTION |
|---|---|---|---|
| • 27% market share of individual segregated funds[1]<br>• 17% market share of group capital accumulation plans[2] | **Group Retirement Services**<br>• Group Capital Accumulation Plans<br>• Non-registered savings programs<br>• Deferred profit sharing plans<br>• Defined contribution pension plans<br>• Group RRSPs & TFSAs<br>Invested in:<br>• Segregated funds<br>• Guaranteed investment options<br>• Single company stock<br><br>• Retirement Income Plans<br>• Payout annuities<br>• Deferred annuities<br>• Retirement income funds<br>• Life income funds<br><br>• Investment management services only plans<br>Invested in:<br>• Segregated funds<br>• Guaranteed investment options<br>• Securities | **Individual Retirement & Investment Services**<br>• Savings plans<br>• RRSPs<br>• Non-registered savings programs<br>• TFSAs<br>Invested in:<br>• Segregated funds<br>• Mutual funds<br>• Guaranteed investment options<br><br>• Retirement Income Plans<br>• Segregated funds with GMWB rider<br>• Retirement income funds<br>• Life income funds<br>• Payout annuities<br>• Deferred annuities<br><br>• Residential mortgages<br>• Banking products | **Associated with:**<br>***Great-West Life Distribution***<br>• 2,896 Great-West Life financial security advisors<br>• 2,140 advisors associated with a number of intercorporate arrangements<br>• 6,202 independent brokers<br><br>***London Life Distribution***<br>• 3,700 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors<br><br>***Canada Life Distribution***<br>• 7,648 independent brokers associated with 35 MGAs<br>• 1,685 advisors associated with 14 national accounts<br>• 3,244 Investors Group consultants who actively sell Canada Life products<br>• 159 direct brokers and producer groups<br><br>**Quadrus Investment Services Ltd.**<br>(also included in Great-West Life and London Life advisor counts):<br>• 4,085 investment representatives<br><br>**Group Retirement Services**<br>• Benefits Consultants, Brokers and Affiliated advisors (as above) |

[1] As at September 30, 2015

[2] As at June 30, 2015

### GROUP INSURANCE

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 | PRODUCTS AND SERVICES | DISTRIBUTION |
|---|---|---|
| • Employee benefits to over 30,000 plan sponsors(1)<br>• 21% market share for employee/employer plans(2)<br>• Leading market share with 39% for creditor products(2) with coverage provided to over 7.4 million plan members(1)<br>• 5% market share(2) for direct marketing products with coverage provided to over 0.8 million plan members(1) | ***Life and Health***<br>• Life<br>• Disability<br>• Critical Illness<br>• Accidental death & dismemberment<br>• Dental<br>• Expatriate coverage<br>• Extended health care<br><br>***Creditor***<br>• Creditor life<br>• Creditor disability<br>• Creditor job loss<br>• Creditor critical illness<br>• Creditor Credit Card Outstanding Balance | • 120 account managers and sales staff located in 16 Group Offices<br>• 105 Regional Employee Benefits Managers and Selectpac Sales Specialists located in 28 Sales and Marketing Centres |

(1) As at December 31, 2015
(2) As at December 31, 2014

## COMPETITIVE CONDITIONS

### INDIVIDUAL INSURANCE

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.

### WEALTH MANAGEMENT

The wealth management marketplace is very competitive. The Company's competitors include mutual fund companies, insurance companies, banks and investment advisors, as well as other service and professional organizations. Competition focuses on service, variety of investment options, investment performance, product features, price and financial strength, as indicated by ratings issued by nationally recognized agencies.

### GROUP INSURANCE

The group insurance market in Canada is highly competitive. There are three large group insurance carriers with significant market positions, as well as a number of smaller companies operating nationally, and several regional and niche competitors. The Company has significant market share of approximately 21%. This strong market share position, supported by extensive distribution and access to a wide range of products and services, is a distinct advantage for competing successfully in the Canadian group insurance market.

**Selected consolidated financial information - Canada**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Premiums and deposits | **$ 6,110** | $ 5,672 | $ 5,874 | **$ 23,564** | $ 24,140 |
| Sales | **3,492** | 2,944 | 3,311 | **12,635** | 12,164 |
| Fee and other income | **369** | 366 | 349 | **1,459** | 1,409 |
| Net earnings - common shareholders | **262** | 326 | 300 | **1,195** | 1,228 |
| Total assets | **$ 145,895** | $ 143,933 | $ 141,490 | | |
| Proprietary mutual funds and institutional net assets | **5,039** | 4,896 | 4,718 | | |
| Total assets under management | **150,934** | 148,829 | 146,208 | | |
| Other assets under administration | **15,390** | 14,955 | 14,793 | | |
| **Total assets under administration** | **$ 166,324** | $ 163,784 | $ 161,001 | | |

**Net earnings - common shareholders**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Individual Insurance | **$ 51** | $ 91 | $ 120 | **$ 307** | $ 395 |
| Wealth Management | **119** | 116 | 69 | **479** | 383 |
| Group Insurance | **74** | 153 | 96 | **432** | 422 |
| Corporate | **18** | (34) | 15 | **(23)** | 28 |
| Net earnings | **$ 262** | $ 326 | $ 300 | **$ 1,195** | $ 1,228 |

## 2015 DEVELOPMENTS

- Premiums and deposits for the twelve months ended December 31, 2015 were $23.6 billion compared to $24.1 billion for the same period in 2014. Premiums and deposits in the fourth quarter of 2015 were $6.1 billion, a 4% increase from the same quarter last year.
- Sales for the twelve months ended December 31, 2015 were $12.6 billion compared to $12.2 billion for the same period in 2014. Sales in the fourth quarter of 2015 were $3.5 billion, a 5% increase from the same quarter in 2014, which reflects strong sales across all lines of business.
- Fee and other income for the twelve months ended December 31, 2015 was $1,459 million compared to $1,409 million for the same period in 2014. Fee and other income was $369 million for the fourth quarter of 2015, an increase of $20 million compared to the same quarter in 2014, primarily due to growth in assets under management.
- Net earnings for the twelve months ended December 31, 2015 were $1,195 million compared to $1,228 million for the same period in 2014. Net earnings for the fourth quarter of 2015 were $262 million, a decrease of $38 million compared to the same quarter last year. The fourth quarter of 2014 included changes to actuarial standards related to economic reinvestment assumptions that positively impacted earnings in the fourth quarter of 2014 and did not recur in 2015.
- During the fourth quarter of 2015, Individual Insurance announced price reductions on term 10 and term 20 products as well as product enhancements and price refinements for critical illness and disability income products.

- The Company continued to invest in technology to enhance the customer service experience.
  - Great-West Life streamlined payments for health and dental providers, replacing individual paper cheques with direct deposits or bundled cheques. These changes are resulting in significant expense savings and reductions in use of paper. The Company expects continued savings as more providers choose direct deposit.
  - During the year, Group Retirement Services introduced Enrollment Express, a new online enrollment service.
- The Company introduced new health and wellness tools as well as enhancements to the plan member experience, including:
  - Launch of a pilot for an innovative health and wellness platform to help improve health outcomes for plan members and reduce associated health plan costs for plan sponsors. The platform delivers personalized recommendations on healthy actions for plan members and access to specialty health programs, such as diabetes management for eligible participants, along with built-in incentives.
  - Enhanced scope and capabilities for the Personal Health Risk Assessment tool, available through the Company's online service site, GroupNet for Plan Members. Plan members can create their own health profile, build an action plan to support their health and wellness needs and track their progress along the way.
  - Updates to GroupNet Mobile app, including a Drug Coverage Search Tool plan members can use to find out if a drug is covered and at what level.
  - New videos and promotions through social media to inform, educate and encourage smart choices, including educating plan members on their benefits, and the differences between brand and generic drugs.
- The Great-West Life Centre for Mental Health in the Workplace continued to provide free tools and resources to help employers enhance workplace mental health:
  - Supported development and launch of the Canadian Mental Health Association’s Certified Psychological Health and Safety Advisor Training program. The program certifies individuals and consultants to help public and private sector organizations implement the National Standard of Canada for Psychological Health and Safety in the Workplace.
  - Re-launched an expanded version of its free Supporting Employee Success (SES) resource. SES can help employees who are managing mental health issues successfully remain in, or return to, the workplace, including helping managers better handle accommodations and healthcare providers better understand workplace demands.
- In 2015, Wealth Management launched the HelloLife™ retirement program. This program allows the Company's financial security advisors to help individuals create a retirement program tailored to their specific needs.
- In 2015, the Company undertook an initiative to ensure eligible high-net-worth clients were receiving the benefit of preferred pricing.

# BUSINESS UNITS - CANADA

## *INDIVIDUAL INSURANCE*

### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Premiums and deposits | **$ 1,304** | $ 1,220 | $ 1,202 | **$ 4,894** | $ 4,518 |
| Sales | **137** | 142 | 117 | **530** | 494 |
| Net earnings | **51** | 91 | 120 | **307** | 395 |

**Premiums and deposits**

Individual Insurance premiums for the fourth quarter of 2015 increased by $102 million to $1,304 million compared to the same quarter last year. Individual Life premiums for the quarter increased by $102 million to $1,221 million compared to the same quarter last year, primarily due to a 12% increase in participating life premiums. Living Benefits premiums of $83 million were comparable to same quarter last year.

For the twelve months ended December 31, 2015, Individual Insurance premiums increased by $376 million to $4,894 million compared to the same period last year. Individual Life premiums increased by $373 million to $4,563 million compared to the same period last year, primarily due to an 11% increase in participating life premiums. Living Benefits premiums of $331 million were comparable to the same period last year.

Individual Insurance premiums for the fourth quarter of 2015 increased by $84 million compared to the previous quarter, primarily due to a 9% increase in participating life premiums.

**Sales**

Individual Insurance sales for the fourth quarter of 2015 increased by $20 million to $137 million compared to the same quarter last year. Participating life sales remained strong, up $16 million or 19%, while Universal Life and Term Life insurance product sales were comparable to the same quarter last year.

For the twelve months ended December 31, 2015, Individual Insurance sales increased by $36 million to $530 million compared to the same period last year. Participating life sales increased $50 million or 15%, while Universal Life and Term Life insurance product sales decreased $16 million or 13%, primarily due to application processing delays earlier in the year.

Individual Insurance sales for the fourth quarter of 2015 decreased by $5 million compared to the previous quarter, primarily due to a 5% decrease in participating life sales.

**Net earnings**
Net earnings for the fourth quarter of 2015 decreased by $69 million to $51 million compared to the same quarter last year. The decrease was primarily due to lower insurance contract liability basis changes and less favourable mortality results, partially offset by higher contributions from investment experience and favourable policyholder behaviour experience. In 2014, insurance contract liability basis changes mostly reflected the impact of changes to actuarial standards related to economic reinvestment assumptions.

For the twelve months ended December 31, 2015, net earnings decreased by $88 million to $307 million compared to the same period last year. The decrease was primarily due to lower insurance contract liability basis changes, discussed for the in-quarter results, and higher new business strain, partially offset by higher contributions from investment experience and favourable policyholder behaviour experience. In addition, net earnings in 2015 were positively impacted by changes to certain income tax estimates.

Net earnings for the fourth quarter of 2015 decreased by $40 million compared to the previous quarter. The decrease was primarily due to lower insurance contract liability basis changes. In addition, net earnings in the third quarter of 2015 were positively impacted by changes to certain income tax estimates, which did not recur in the fourth quarter of 2015.

For the fourth quarter of 2015, the net earnings attributable to the participating account increased by $16 million to $40 million compared to the same quarter last year, primarily due to higher contributions from insurance contract liability basis changes and lower new business strain.

For the twelve months ended December 31, 2015, the net earnings attributable to the participating account increased by $23 million to $111 million compared to the same period last year. The increase was primarily due to higher contributions from insurance contract liability basis changes and investment experience on participating surplus assets, as well as the positive impacts of changes to certain income tax estimates.

The net earnings attributable to the participating account for the fourth quarter of 2015 increased by $18 million compared to the previous quarter, primarily due to higher contributions from insurance contract liability basis changes. In addition, net earnings in the third quarter of 2015 were positively impacted by changes to certain income tax estimates, which did not recur in the fourth quarter of 2015.

**OUTLOOK – INDIVIDUAL INSURANCE**
*Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.*

The Individual Insurance division delivered strong results in 2015. The Company's reputation for strength and stability, combined with prudent business practices as well as the depth and breadth of its distribution channels positions the Company well for 2016 and beyond. The Company has reviewed its strategies with the goal of achieving superior organic growth from profitable products.

In 2016, the Company will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term financial security regardless of market fluctuations. This approach is beneficial to strong client retention as well as helping advisors attract new clients 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 lower service levels associated with the new business process implemented in 2014 were mostly addressed during 2015 and the Company expects continued improvements during 2016.

The Company's broad spectrum of distribution associates, including exclusive and independent channels, and multiple brands provides important strategic advantages within the Canadian market. The Company will continue to competitively develop, price and market its comprehensive range of Individual Insurance products while maintaining its focus on sales and service support for large cases in all channels.

The Company's diversified offering of Individual Insurance products including participating whole life, term, universal life, disability, and critical illness insurance, combined with a commitment to new business service will position it to continue to achieve market leading sales in 2016. The Company will continue to enhance its suite of product solutions and services and will continue to focus on growing its business organically by constantly improving service to clients.

Operational expense management continues to be critically important to delivering strong financial results. This will be achieved through disciplined expense controls and effective development and implementation of strategic investments. Management has identified a number of areas of focus for these investments to facilitate the objective of organic growth.

## *WEALTH MANAGEMENT*

### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Premiums and deposits | **$ 2,804** | $ 2,504 | $ 2,741 | **$ 10,832** | $ 11,914 |
| Sales | **3,220** | 2,551 | 3,073 | **11,472** | 11,087 |
| Fee and other income | **316** | 310 | 297 | **1,247** | 1,200 |
| Net earnings | **119** | 116 | 69 | **479** | 383 |

**Premiums and deposits**

Premiums and deposits for the fourth quarter of 2015 increased by $63 million to $2,804 million compared to the same quarter last year. The increase was primarily due to higher premiums and deposits related to the Company's in-force group capital accumulation plan (GCAP) products and single premium group annuities (SPGAs).

Excluding the impact of the conversion of certain pension plan assets into segregated fund products of $1,066 million in the first quarter of 2014, premiums and deposits for the twelve months ended December 31, 2015 of $10,832 million were comparable to the same period last year. Higher premiums and deposits related to individual investment funds were offset by lower premiums and deposits related to GCAP products, group investment only (IO) products and individual payout annuities.

Premiums and deposits for the fourth quarter of 2015 increased by $300 million compared to the previous quarter. The increase was primarily driven by higher premiums and deposits related to the Company's in-force GCAP products, SPGAs and individual investment funds.

**Sales**

Sales for the fourth quarter of 2015 increased by $147 million to $3,220 million compared to the same quarter last year. The increase was primarily due to higher sales of individual investment funds, driven by growth in high-net-worth product sales.

For the twelve months ended December 31, 2015, sales increased by $385 million to $11,472 million compared to the same period last year, primarily due to higher sales of individual investment funds, partially offset by lower sales of group IO products, GCAP products and individual payout annuities.

Sales for the fourth quarter of 2015 increased by $669 million compared to the previous quarter. The increase was primarily driven by higher sales of individual investment funds, GCAP products and SPGAs.

For the GCAP and proprietary individual investment fund business, net cash inflows for the fourth quarter of 2015 were $358 million compared to $264 million in the same quarter last year and $21 million in the previous quarter. For the twelve months ended December 31, 2015, net cash inflows were $788 million compared to $2,152 million for the same period last year, which included $1,066 million related to the conversion of certain pension plan assets into segregated fund products. Excluding this conversion, net cash inflows decreased by $298 million primarily due to higher withdrawals and slightly lower premiums and deposits on the GCAP business. Withdrawal rates are consistent with the prior year, but withdrawals have increased as a result of higher asset levels.

**Assets under administration**

| | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **Assets under management** | | |
| Individual Retirement & Investment Services | | |
| Risk-based products | **$ 5,739** | $ 6,181 |
| Segregated funds | **29,836** | 29,250 |
| Proprietary mutual funds | **4,917** | 4,620 |
| Group Retirement Services | | |
| Risk-based products | **7,161** | 7,006 |
| Segregated funds | **40,433** | 39,122 |
| Institutional assets | **122** | 98 |
| **Total assets under management** | **$ 88,208** | $ 86,277 |
| **Other assets under administration**[(1)] | | |
| Individual Retirement & Investment Services | **6,620** | 6,050 |
| Group Retirement Services | **526** | 515 |
| **Total other assets under administration** | **$ 7,146** | $ 6,565 |
| **Total assets under administration** | **$ 95,354** | $ 92,842 |
| **Summary by business/product** | | |
| Individual Retirement & Investment Services | **47,112** | 46,101 |
| Group Retirement Services | **48,242** | 46,741 |
| **Total assets under administration** | **$ 95,354** | $ 92,842 |

(1) Includes mutual funds distributed by Quadrus Investment Services Ltd., stock purchase plans administered by London Life and portfolio assets managed by GLC Asset Management Group.

### Fee and other income

Fee and other income for the fourth quarter of 2015 increased by $19 million to $316 million compared to the same quarter last year, primarily due to growth in average assets under administration driven by positive fund performance and net cash flows, partially offset by lower margins. The growth in assets under administration was driven by positive fixed-income and U.S. equity fund returns due to lower interest rates and the strengthening of the U.S. dollar, respectively. This was partially offset by negative returns on Canadian equity funds due to lower average equity market levels. Lower margins were primarily driven by the development of the market for high-net-worth segregated fund and mutual fund products. In addition, fee income for the fourth quarter of 2014 was negatively impacted by a fee income provision.

Fee and other income for the twelve months ended December 31, 2015 increased by $47 million to $1,247 million compared to the same period last year. The increase was primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for the fourth quarter of 2015 increased by $6 million compared to the previous quarter, primarily due to growth in other income related to distribution arrangements.

**Net earnings**
Net earnings for the fourth quarter of 2015 increased by $50 million to $119 million compared to the same quarter last year. The increase was primarily due to higher contributions from insurance contract liability basis changes and higher net fee income, partially offset by increased operating expenses. In 2014, insurance contract liability basis changes mostly reflected changes to actuarial standards related to economic reinvestment assumptions that negatively impacted earnings.

For the twelve months ended December 31, 2015, net earnings increased by $96 million to $479 million compared to the same period last year. The increase was primarily due to higher contributions from insurance contract liability basis changes, as discussed for the in-quarter results, and investment experience, higher net fee income and more favourable longevity experience, partially offset by increased operating expenses.

Net earnings for the fourth quarter of 2015 increased by $3 million compared to the previous quarter, primarily due to higher contributions from insurance contract liability basis changes and investment experience, partially offset by increased operating expenses.

## OUTLOOK – WEALTH MANAGEMENT

*Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.*

The Company's reputation for strength and stability, combined with prudent business practices as well as the depth and breadth of Wealth Management's distribution channels, positions the Company well for 2016 and beyond. Wealth Management’s strategy and organization are focused on achieving growth from profitable products.

In 2016, the Company will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term investment success. This approach benefits the Company by improving existing asset retention and by helping advisors attract new client deposits to the Company. A key distribution strategy is to maximize use of common tools, processes and support, while tailoring support to specific segments of advisors where appropriate.

Wealth Management's multiple brands and broad spectrum of distribution associates, including exclusive and independent channels, provide important strategic advantages within the Canadian market. The Company will continue to develop, price and market its comprehensive and competitive range of wealth management products to both retail and group clients. The Company continues to observe fee income compression due to the competitive market; however, the Company targets to offset these impacts by growing assets under management and continuing to improve the Company's operational efficiency.

In 2015, the Company launched the HelloLife™ retirement program. This program allows the Company's financial security advisors to help individuals create a retirement program tailored to their specific needs. The HelloLife™ retirement program is expected to generate higher net cash flow and associated fee income from segregated funds as well as higher sales of individual payout annuities in future years. The Company will continue to focus on serving the needs of the aging demographic and enhancing the client's experience through various initiatives targeted at both individual and group customers.

The Company will focus on strategic investment in the business, operational efficiency improvements and disciplined expense management to deliver strong financial results.

## *GROUP INSURANCE*

### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Premiums and deposits | **$ 2,002** | $ 1,948 | $ 1,931 | **$ 7,838** | $ 7,708 |
| Sales | **135** | 251 | 121 | **633** | 583 |
| Fee and other income | **41** | 38 | 40 | **157** | 153 |
| Net earnings | **74** | 153 | 96 | **432** | 422 |

**Premiums and deposits**
Premiums and deposits for the fourth quarter of 2015 increased by $71 million to $2,002 million compared to the same quarter last year, primarily due to an increase in mid-size and large case market premiums and deposits.

For the twelve months ended December 31, 2015, premiums and deposits increased by $130 million to $7,838 million compared to the same period last year, for the same reasons discussed for the in-quarter results.

Premiums and deposits for the fourth quarter of 2015 increased by $54 million compared to the previous quarter, primarily due to an increase in large case market premiums and deposits.

**Sales**
Sales for the fourth quarter of 2015 increased by $14 million to $135 million compared to the same quarter last year. The increase was primarily due to higher sales in the mid-size case and large case markets, partially offset by lower creditor sales. Sales of creditor products can be highly variable from quarter to quarter.

For the twelve months ended December 31, 2015, sales increased by $50 million to $633 million compared to the same period last year. The increase was primarily due to higher sales across all market segments.

Sales for the fourth quarter of 2015 decreased by $116 million compared to the previous quarter, primarily due to lower sales in the large case market, which included a large government plan sale in the previous quarter, and lower creditor sales, partially offset by higher sales in the mid-size case market.

**Fee and other income**
Fee and other income of $41 million for the fourth quarter of 2015 was both comparable to the same quarter last year and the previous quarter.

Fee and other income of $157 million for the twelve months ended December 31, 2015 was comparable to the same period last year.

**Net earnings**
Net earnings for the fourth quarter of 2015 decreased by $22 million to $74 million compared to the same quarter last year. The decrease was primarily due to less favourable morbidity experience, particularly related to long-term disability experience, and higher operating expenses primarily supporting business growth.

For the twelve months ended December 31, 2015, net earnings increased by $10 million to $432 million compared to the same period last year. The increase was primarily due to the positive impact of changes to certain income tax estimates in the third quarter of 2015 and higher contributions from investment experience, partially offset by less favourable morbidity experience and higher operating expenses.

Net earnings for the fourth quarter of 2015 decreased by $79 million compared to the previous quarter, primarily due to less favourable morbidity experience, lower contributions from investment experience and higher operating expenses, partially offset by higher contributions from insurance contract liability basis changes. In addition, net earnings for the third quarter of 2015 were positively impacted by changes to certain income tax estimates, which did not recur in the fourth quarter of 2015.

**OUTLOOK – GROUP INSURANCE**

*Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.*

During 2015, the Company maintained its strong competitive position in the Canadian group insurance market with leading or strong market shares in all case size, regional and benefit market segments. The Company believes that this market share position, together with its expense management capabilities and distribution capacity, will facilitate continued growth in revenue premium. In particular, through effective investment in digital technologies and innovative benefit solutions, the Company expects to continue to enhance its competitive position in the marketplace.

## *CANADA CORPORATE*

Canada Corporate consists of items not associated directly with or allocated to the Canadian business units.

For the fourth quarter of 2015, Canada Corporate had net earnings of $18 million compared to $15 million for the same quarter last year. The change in net earnings was primarily due to higher net investment income and lower operating expenses, partially offset by increased allocated financing charges.

For the twelve months ended December 31, 2015, Canada Corporate had a net loss of $23 million compared to net earnings of $28 million for the same period last year. The change in net earnings was primarily due to changes to certain income tax estimates, which did not occur in 2014, and increased allocated financing charges, partially offset by higher net investment income and lower operating expenses.

For the fourth quarter of 2015, Canada Corporate had net earnings of $18 million compared to a net loss of $34 million in the previous quarter. The change in net earnings was primarily due to lower income taxes and higher net investment income. Net earnings for the third quarter of 2015 were negatively impacted by changes to certain income tax estimates, which did not recur in the fourth quarter of 2015.

## UNITED STATES

The United States operating results for Lifeco include the results of Great-West Financial, Putnam and the results of the insurance businesses in the United States branches of Great-West Life and 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. The Company also provides life insurance, annuity and executive benefits products through its Individual Markets operations.

Through Putnam, the Company's Asset Management business unit 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.

Currency translation impact is a non-IFRS financial measure that highlights the impact of changes in currency translation rates on IFRS results. This measure provides useful information as it facilitates comparability of results between periods. Refer to the Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

## BUSINESS PROFILE

### FINANCIAL SERVICES

Great-West Financial provides an array of financial security products, including employer-sponsored defined contribution plans, individual retirement accounts, life insurance, annuity products and executive benefits products. Under the Empower Retirement brand name, Great-West Financial offers employer-sponsored defined contribution plans, individual retirement accounts, enrollment services, communication materials, investment options and education services as well as fund management, investment and advisory services. Through its FASCore subsidiary, the Company offers private label recordkeeping and administrative services for other providers of defined contribution plans. Through relationships with government plan sponsors, the Company is the largest provider of services to state defined contribution plans, with 21 recordkeeping and two investment only state clients as well as the Government of Guam.

### ASSET MANAGEMENT

Putnam provides investment management, certain 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. Revenue is derived from the value and composition of assets under management, 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 | PRODUCTS AND SERVICES | DISTRIBUTION |
|---|---|---|
| • Second largest defined contribution recordkeeper in the country[(4)], providing services for over 7.5 million participant accounts and 35,495 plans[(1)]<br>• 23% market share in state and local government deferred compensation plans, based on number of participant accounts[(2)]<br>• 20% market share of individual life insurance sold through the retail bank channel[(3)]<br>• 7% market share of executive benefits markets life insurance purchased by financial institutions[(3)]<br>• Great-West Lifetime Funds are the 13th largest target date fund offering in the United States[(1)] | • Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services<br>• Administrative and recordkeeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans<br>• Fund management, investment and advisory services<br>• Individual retirement accounts (IRAs), individual term and single premium life insurance and individual annuity products<br>• Executive benefits markets life insurance products | • Retirement services products distributed to plan sponsors through brokers, consultants, advisors, third-party administrators and banks<br>• FASCore recordkeeping and administrative services distributed through institutional clients<br>• Individual life and annuity products distributed through wholesale and retail sales force, banks, broker dealers and investment advisors<br>• IRAs available to individuals through the Retirement Solutions Group<br>• Executive benefits markets life insurance products distributed through wholesalers and specialized consultants |

(1) As at December 31, 2015
(2) As at September 30, 2015
(3) Market share based on annualized Q1 - Q3 2015 sales data
(4) As at June 30, 2015

**ASSET MANAGEMENT**

| MARKET POSITION | PRODUCTS AND SERVICES | DISTRIBUTION |
|---|---|---|
| • A global asset manager with assets under management of US$148 billion[(1)]<br>• 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 strategic distribution relationship in Japan | **Investment Management Products & Services**<br>• Individual retail investors - a family of open-end and closed-end mutual funds, college savings plans and variable annuity products<br>• Institutional investors - defined benefit and defined contribution investment only plans sponsored by corporations, state, municipal and other governmental authorities, university endowment funds, charitable foundations, and collective investment vehicles (both U.S. and non-U.S.)<br>• Investment services for defined contribution investment only plans<br>• Alternative investment products across the fixed-income, quantitative and equity groups<br><br>**Administrative Services**<br>• Transfer agency, underwriting, distribution, shareholder services, trustee and other fiduciary services | **Individual Retail Investors**<br>• 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 services to their customers, which, in total, includes approximately 158,000 advisors<br>• Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents<br>• Retail distribution channels are supported by Putnam's sales and relationship management team<br>• Retirement plan sponsors and participants are supported by Putnam's dedicated retirement plan professionals and through a relationship with Empower Retirement.<br><br>**Institutional Investors**<br>• Supported by Putnam's dedicated account management, product management and client service professionals<br>• Strategic relationships with several investment management firms outside of the U.S. |

(1) As at December 31, 2015

## COMPETITIVE CONDITIONS

### FINANCIAL SERVICES

The life insurance, savings and investments marketplace is 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 highly 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 offers its funds only through intermediaries.

| Selected consolidated financial information - United States | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Premiums and deposits | **$ 15,956** | $ 13,719 | $ 12,810 | **$ 53,648** | $ 46,541 |
| Sales | **31,630** | 25,831 | 15,105 | **95,715** | 54,430 |
| Fee and other income | **637** | 591 | 522 | **2,378** | 1,820 |
| Net earnings - common shareholders | **125** | 96 | 89 | **409** | 306 |
| Net earnings - common shareholders (US$) | **92** | 73 | 77 | **318** | 274 |
| Total assets | **$ 86,775** | $ 83,600 | $ 72,902 | | |
| Proprietary mutual funds and institutional net assets | **218,231** | 206,579 | 190,817 | | |
| Total assets under management | **305,006** | 290,179 | 263,719 | | |
| Other assets under administration | **503,125** | 468,712 | 433,754 | | |
| **Total assets under administration** | **$ 808,131** | $ 758,891 | $ 697,473 | | |

| Net earnings - common shareholders | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Financial services | **$ 86** | $ 106 | $ 93 | **$ 384** | $ 382 |
| Asset management | **41** | (8) | (1) | **32** | (71) |
| Corporate | **(2)** | (2) | (3) | **(7)** | (5) |
| | **$ 125** | $ 96 | $ 89 | **$ 409** | $ 306 |
| Financial services (US$) | **$ 63** | $ 81 | $ 80 | **$ 299** | $ 343 |
| Asset management (US$) | **31** | (6) | (1) | **25** | (65) |
| Corporate (US$) | **(2)** | (2) | (2) | **(6)** | (4) |
| | **$ 92** | $ 73 | $ 77 | **$ 318** | $ 274 |

## 2015 DEVELOPMENTS

- Under the Empower Retirement brand, effective January 1, 2015, the retirement services businesses of Great-West Financial, the acquired J.P. Morgan Retirement Plan Services (RPS) and Putnam have merged, creating the second largest recordkeeping provider in the U.S. The number of participant accounts has grown from 7.1 million at December 31, 2014 to over 7.5 million at December 31, 2015. Empower Retirement also includes the individual retirement account (IRA) business that was previously reported with Great-West Financial's Individual Markets results.
- Within the business unit sections, 2015 figures are aligned with the new business structure, while 2014 comparative figures reflect the previous structure.
- Net earnings for the twelve months ended December 31, 2015 were US$318 million, an increase of US$44 million compared to the same period in 2014. Net earnings for the three months ended December 31, 2015 were US$92 million, an increase of US$15 million compared to the same quarter last year.

## BUSINESS UNITS – UNITED STATES

### *FINANCIAL SERVICES*

#### 2015 DEVELOPMENTS

- Sales for the twelve months ended December 31, 2015 were US$43.2 billion, up from US$15.3 billion during the same period last year. Sales in the fourth quarter of 2015 were US$15.5 billion, an increase of US$11.5 billion compared to the same quarter in 2014, primarily due to higher large plan sales in Empower Retirement.
- Premiums and deposits for the twelve months ended December 31, 2015 were US$10.7 billion, a 31% increase from the same period last year. Premiums and deposits for the three months ended December 31, 2015 were US$3.8 billion, a 91% increase from the same quarter last year, primarily due to higher sales in Empower Retirement.
- Fee and other income for the twelve months ended December 31, 2015 was US$973 million compared to US$727 million for the same period in 2014. Fee and other income for the three months ended December 31, 2015 was US$260 million, an increase of US$45 million from the same quarter last year, primarily due to increased average assets driven by positive cash flows and higher average equity market levels.
- Net earnings for the twelve months ended December 31, 2015 were US$299 million compared to US$343 million for the same period in 2014. Net earnings for the three months ended December 31, 2015 were US$63 million, a decrease of US$17 million over the same quarter last year, primarily due to higher operating expenses and lower contributions from basis changes.
- Empower Retirement continues to incur strategic and business development expenses as it focuses on enhancements, which will improve the client-facing experience as well as streamline the back-office processing over the next several years. The Company anticipates investing approximately US$150 million in total on this multi-year initiative. For the three and twelve months ended December 31, 2015, these costs have decreased net earnings by US$9 million and US$34 million, respectively, with an expected decrease to net earnings of approximately US$20 million in 2016.
- The Company has set an annual cost savings target of US$40 million to US$50 million pre-tax. Integration activities are expected to be completed by the second quarter of 2017 with the annual reduction of operating costs fully reflected upon the completion of the business transformation in the next three to four years. These synergies are expected to be achieved through efficiencies from the conversion of business onto a single back-office platform, increased utilization of Great-West Global, which launched in the third quarter of 2015 with over 314 professionals based in India, as well as scale-driven cost improvement. Ongoing operations will include amortization expense from system and infrastructure enhancements. The Company expects that these enhancements will increase market share by driving future sales and improving the retention of participants and assets.

## OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Premiums and deposits | **$ 5,087** | $ 3,477 | $ 2,268 | **$ 13,798** | $ 9,028 |
| Sales | **20,761** | 15,589 | 4,563 | **55,865** | 16,917 |
| Fee and other income | **349** | 306 | 245 | **1,247** | 805 |
| Net earnings | **86** | 106 | 93 | **384** | 382 |
| | | | | | |
| Premiums and deposits (US$) | **$ 3,796** | $ 2,655 | $ 1,990 | **$ 10,688** | $ 8,172 |
| Sales (US$) | **15,493** | 11,900 | 4,003 | **43,195** | 15,310 |
| Fee and other income (US$) | **260** | 233 | 215 | **973** | 727 |
| Net earnings (US$) | **63** | 81 | 80 | **299** | 343 |

**Premiums and deposits**

Premiums and deposits for the fourth quarter of 2015 increased by US$1.8 billion to US$3.8 billion compared to the same quarter last year, due to an increase of US$1.9 billion in Empower Retirement, partially offset by a decrease of US$0.1 billion in Individual Markets. The increase in Empower Retirement was primarily due to higher plan sales. In the fourth quarter of 2014, IRA premiums and deposits of US$0.1 billion were included in Individual Markets; in 2015, these are included in Empower Retirement.

For the twelve months ended December 31, 2015, premiums and deposits increased by US$2.5 billion to US$10.7 billion compared to the same period last year, due to an increase of US$3.2 billion in Empower Retirement, partially offset by a decrease of US$0.7 billion in Individual Markets. The increase in Empower Retirement was primarily due to the same reason discussed for the in-quarter results. The decrease in Individual Markets was primarily due to lower sales in the executive benefits and retail bank life insurance lines of business. For the twelve months ended December 31, 2014, IRA premiums and deposits of US$0.3 billion were included in Individual Markets; in 2015, these are included in Empower Retirement.

Premiums and deposits for the fourth quarter of 2015 increased by US$1.1 billion compared to the previous quarter, primarily due to higher sales relating to Empower Retirement and higher sales in the executive benefits line of business for Individual Markets.

**Sales**

Sales in the fourth quarter of 2015 increased by US$11.5 billion to US$15.5 billion compared to the same quarter last year, due to an increase of US$11.9 billion in Empower Retirement, partially offset by a decrease of US$0.4 billion in Individual Markets. The increase in Empower Retirement sales was primarily due to an increase in large plan sales. Approximately 50% of the in-quarter sales increase related to two new clients with approximately 140,000 participants. In the fourth quarter of 2014, IRA sales of US$0.4 billion were included in Individual Markets; in 2015, these are included in Empower Retirement.

For the twelve months ended December 31, 2015, sales increased by US$27.9 billion to US$43.2 billion compared to the same period last year. The increase was due to an increase of US$29.1 billion in Empower Retirement, partially offset by a decrease in Individual Markets of US$1.2 billion. The increase in Empower Retirement sales was primarily due to an increase in large plan sales. For the twelve months ended December 31, 2014, IRA sales of US$0.9 billion were included in Individual Markets; in 2015, these are included in Empower Retirement.

Sales in the fourth quarter of 2015 increased by US$3.6 billion compared to the previous quarter, due to an increase of US$3.4 billion in Empower Retirement as well as an increase of US$0.2 billion in Individual Markets. The increase in Empower Retirement sales was due to an increase in large plan sales, while the increase in Individual Markets was due to higher sales in the executive benefits line of business.

**Empower Retirement - customer account values (US$)**

| | Change for the twelve months ended December 31 | | Total at December 31 | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **% Change** |
| General account - fixed options | **$ 527** | $ 303 | **$ 10,993** | $ 10,466 | 5 % |
| Segregated funds - variable options | **(801)** | 129 | **19,583** | 20,384 | (4) |
| Proprietary mutual funds[1] | **9,212** | 1,217 | **16,285** | 7,073 | 130 |
| Unaffiliated retail investment options & administrative services only[2] | **(12,930)** | 193,921 | **364,582** | 377,512 | (3) |
| | **$ (3,992)** | $ 195,570 | **$ 411,443** | $ 415,435 | (1)% |

(1) At December 31, 2015, proprietary mutual funds included US$6.6 billion in Putnam managed funds (US$0.9 billion at December 31, 2014) and US$0.7 billion of IRA assets transferred from Individual Markets.

(2) At December 31, 2015, unaffiliated retail investment options & administrative services only account values included US$1.0 billion of IRA assets transferred from Individual Markets. At December 31, 2014, unaffiliated retail investment options & administrative services only account values included US$4.6 billion where Empower Retirement provided administrative services for Putnam managed funds.

Empower Retirement customer account values at December 31, 2015 decreased by US$4.0 billion compared to December 31, 2014. Included in the US$12.9 billion decrease in unaffiliated retail investment options and administrative services only assets is the impact of the transfer of the defined contribution business from Putnam to Empower Retirement on January 1, 2015 which resulted in US$4.6 billion of these assets being recategorized to proprietary mutual funds and is reflected in the US$9.2 billion increase for proprietary mutual funds. Excluding the impact of the transfer, the decrease in the unaffiliated retail investment options and administrative services only account values was primarily due to a decline in the equity markets and net asset outflows. These items were partially offset by an increase in proprietary mutual funds due to net cash inflows.

**Fee and other income**

Fee income is derived primarily from assets under management, assets under administration, shareholder servicing fees, administration and record-keeping 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 2015 increased by US$45 million to US$260 million compared to the same quarter last year. The increase was primarily due to a one-time adjustment to fee income relating to variable asset-based fees of US$18 million, the impact of the transfer of the defined contribution business from Putnam to Empower Retirement on January 1, 2015 and higher-asset based fees, driven by growth in these assets, due to positive net cash flows and higher average equity market levels. In the fourth quarter of 2014, Putnam fees included US$8 million related to the transferred defined contribution business.

For the twelve months ended December 31, 2015, fee and other income increased by US$246 million to US$973 million compared to the same period last year, for the same reasons discussed for the in-quarter results. RPS fee income for the twelve months ended December 31, 2015 was US$183 million, an increase of US$129 million compared to the same period last year. For the twelve months ended December 31, 2014, Putnam fees included US$31 million related to the transferred defined contribution business.

Fee and other income for the fourth quarter of 2015 increased by US$27 million compared to the previous quarter. Excluding the adjustment discussed for the in-quarter results, fee and other income increased by US$9 million, primarily due to increased average assets under administration driven by higher average equity market levels and net positive cash flows in the fourth quarter.

**Net earnings**

Net earnings for the fourth quarter of 2015 decreased by US$17 million to US$63 million compared to the same quarter last year. Fourth quarter 2015 results include US$7 million of strategic and business development expenses related to Empower Retirement, compared to US$8 million for the fourth quarter of 2014. Excluding these expenses, net earnings decreased by US$18 million, primarily due to lower contributions from contract liability basis changes, lower contributions from investment experience, the impact of the transfer of the defined contribution business from Putnam to Empower Retirement as well as higher operating expenses. These decreases were partially offset by an adjustment of US$11 million to the contingent consideration related to the RPS acquisition to reflect current expectations for client retention. In the fourth quarter of 2014, Putnam's net loss included a net loss of US$4 million related to the transferred defined contribution business.

For the twelve months ended December 31, 2015, net earnings decreased by US$44 million to US$299 million compared to the same period last year. Included in the year-to-date net earnings was US$28 million of strategic and development expenses related to Empower Retirement, compared to US$11 million for the same period in 2014. Excluding these expenses, net earnings decreased by US$27 million, primarily due to lower contributions from contract liability basis changes, higher operating expenses and the impact of the transfer of the defined contribution business from Putnam to Empower Retirement. These decreases were partially offset by an adjustment to the RPS acquisition related contingent consideration discussed for the in-quarter results as well as higher contributions from investment experience. For the twelve months ended December 31, 2014, Putnam's net loss included a net loss of US$19 million related to the transferred defined contribution business.

Net earnings for the fourth quarter of 2015 decreased by US$18 million compared to the previous quarter, primarily due to lower contributions from basis changes, higher operating expenses, less favourable mortality experience, partially offset by an adjustment to the RPS acquisition related contingent consideration discussed for the in-quarter results.

**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.*

In 2015, continued progress of Great-West Financial’s strategic initiatives positioned the Company for solid growth. Empower Retirement successfully completed its first full year of operations in 2015. Uniting three strong, established retirement businesses with unique yet complementary products and services, Empower Retirement is positioned for significant growth opportunities across all market segments.

In 2016, 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. Empower Retirement combined the unique technology strengths of Great-West Financial, RPS and Putnam's retirement business to a single recordkeeping platform, including the 2015 launch of a unique, interactive web-based experience to help participants understand their retirement income needs. In 2016, service enhancements to this platform will include standardizing and improving client-facing tools, optimizing advisor relationship management and client alignment as well as adopting best practices for participant communications. The Company expects that these enhancements will increase customer retention and ultimately increase participant retirement savings.

Great-West Financial continually examines opportunities to structure products and develop strategies to stimulate growth in assets under management. The Company expects that the Great-West Lifetime funds and managed account offerings in defined contribution plans will continue to contribute to this growth.

In 2016, Great-West Financial will continue to pursue operational efficiencies. The conversion of the recordkeeping business to a single back-office platform and the migration of selected systems and non-client facing operations to the Great-West Global entity in India are significant initiatives to lower unit costs.

The Individual Markets segment will continue to focus on value oriented products with unique benefits distributed through channels that Great-West Financial understands. Great-West Financial focuses on providing value and innovative products to the partners, brokers and the customers they serve.

Great-West Financial was the second largest distributor of life insurance through banks in 2015. The Company's strategy focuses on protecting customers' wealth and income in retirement with a comprehensive suite of asset growth, income protection and wealth transfer products. To distribute retail retirement income products, the Company has established strategic partnerships with banks and independent broker dealers, which has more than doubled the number of advisors selling Great-West Financial's annuity products to nearly 20,000. This allows Great-West Financial to better market the retirement income products to a larger number of individuals. New products, announced in 2015, will be launched in 2016 to reposition its retirement income product within the market. The Company expects the innovative distribution and product strategies will increase Great-West Financial's market share in the retirement income marketplace.

In the executive benefits market, Great-West Financial provides unique solutions to address the complex needs of organizations for funding employee benefits and retaining key executives. Great-West Financial partners with a network of specialized benefit consultants and brokers to create customized solutions based on clients' needs. The longstanding broker relationships and new partnerships that generated higher regional bank sales and record corporate bank sales in 2015 are expected to drive future sales growth.

## *ASSET MANAGEMENT*

### 2015 DEVELOPMENTS

- Putnam's ending assets under management (AUM) at December 31, 2015 of US$148.4 billion decreased by US$9.2 billion compared to the same period last year, while average AUM for the twelve months ended December 31, 2015 of US$155.8 billion increased by US$0.6 billion compared to the same period last year.
- Sales for the twelve months ended December 31, 2015 were US$31.1 billion compared to US$33.9 billion for the same period in 2014. Putnam's sales for the three months ended December 31, 2015 were US$8.1 billion, a decrease of US$1.1 billion compared to the same period last year.
- Fee income for the twelve months ended December 31, 2015 was US$885 million compared to US$918 million for the same period in 2014. For the three months ended December 31, 2015, fee income was US$216 million, a decrease of US$27 million compared to the same period last year.
- Putnam continues to sustain strong investment performance relative to its peers. As of December 31, 2015, approximately 69% of Putnam's fund assets performed at levels above the Lipper median on a three-year basis.
- For the 26$^{th}$ consecutive year, Putnam has been recognized by DALBAR Inc. for mutual fund service quality, citing industry-leading consistency and reliability. This recognition includes Putnam being named as a DALBAR Mutual Fund Service Award winner for 24 of those years and the winner of DALBAR's Total Client Experience award for the past four years.
- Subsequent to December 31, 2015, in January 2016, Putnam launched Maneuver in Markets™, a multifaceted program to assist advisors and their clients to navigate four key challenges facing them today:
    - Navigating interest rates
    - Expanding short term choices
    - Diversifying to reduce risk
    - Pursuing greater returns

## OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Sales | **$ 10,869** | $ 10,242 | $ 10,542 | **$ 39,850** | $ 37,513 |
| Fee income | | | | | |
| Investment management fees | **218** | 219 | 197 | **864** | 743 |
| Performance fees | **14** | 5 | 13 | **28** | 30 |
| Service fees | **44** | 45 | 47 | **173** | 178 |
| Underwriting & distribution fees | **12** | 16 | 20 | **66** | 64 |
| Fee income | **288** | 285 | 277 | **1,131** | 1,015 |
| | | | | | |
| Core net earnings (loss)(1) | **23** | 8 | 14 | **56** | (1) |
| Less: Financing and other expenses (after-tax)(1) | **18** | (16) | (15) | **(24)** | (70) |
| Reported net earnings (loss) | **41** | (8) | (1) | **32** | (71) |
| | | | | | |
| Sales (US$) | **$ 8,111** | $ 7,818 | $ 9,248 | **$ 31,097** | $ 33,908 |
| Fee income (US$) | | | | | |
| Investment management fees (US$) | **163** | 167 | 173 | **676** | 672 |
| Performance fees (US$) | **11** | 4 | 12 | **23** | 27 |
| Service fees (US$) | **33** | 34 | 41 | **135** | 161 |
| Underwriting & distribution fees (US$) | **9** | 12 | 17 | **51** | 58 |
| Fee income (US$) | **216** | 217 | 243 | **885** | 918 |
| | | | | | |
| Core net earnings (loss) (US$)(1) | **17** | 6 | 12 | **43** | (2) |
| Less: Financing and other expenses (after-tax) (US$)(1) | **14** | (12) | (13) | **(18)** | (63) |
| Reported net earnings (loss) (US$) | **31** | (6) | (1) | **25** | (65) |
| | | | | | |
| Pre-tax operating margin (US$)(2) | **13.5%** | 5.2% | 13.4% | **8.5%** | 4.9% |

(1) Core net earnings (loss) (a non-IFRS financial measure) is a measure of the Asset Management business unit's performance. Core net earnings (loss) include the impact of dealer commissions and software amortization, and excludes the impact of corporate financing charges and allocations, fair value adjustments related to stock-based compensation, certain tax adjustments and other non-recurring transactions.

(2) Pre-tax operating margin (a non-IFRS financial measure) is a measure of the Asset Management business unit's pre-tax core net earnings (loss) divided by the sum of fee income and net investment income.

### Sales

Sales in the fourth quarter of 2015 decreased by US$1.1 billion to US$8.1 billion compared to the same quarter last year, due to a decrease in mutual fund sales of US$2.0 billion, partially offset by higher institutional sales of US$0.9 billion.

For the twelve months ended December 31, 2015, sales decreased by US$2.8 billion to US$31.1 billion compared to the same period last year, due to a decrease in mutual fund sales of US$5.1 billion, partially offset by higher institutional sales of US$2.3 billion.

Sales in the fourth quarter of 2015 increased by US$0.3 billion compared to the previous quarter, due to a US$0.3 billion increase in institutional sales, while mutual fund sales were comparable to the previous quarter.

**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.

Fee income for the fourth quarter of 2015 decreased by US$27 million to US$216 million compared to the same quarter last year. Fee income for the fourth quarter of 2014 included US$8 million related to the defined contribution business, which was transferred to Empower Retirement (transferred defined contribution business) on January 1, 2015. Excluding the impact of the transferred defined contribution business, fee income decreased by US$19 million, primarily due to a decrease in investment management fees, driven by lower average AUM, and lower other asset and sales-based fees.

For the twelve months ended December 31, 2015, fee income decreased by US$33 million to US$885 million compared to the same period last year. Fee income for the twelve months ended December 31, 2014 included US$31 million related to the transferred defined contribution business. Excluding the impact of the transferred defined contribution business, fee income was comparable to the same period last year as lower performance fees and other asset and sales-based fees were offset by increased investment management fees, driven by a slightly higher average AUM.

Fee income for the fourth quarter of 2015 was comparable to the previous quarter as increased performance fees due to the seasonality in which these fees were earned were offset by decreased investment management fees and other asset and sales-based fees, driven by lower average AUM.

**Net earnings**
Core net earnings (a non-IFRS financial measure) for the fourth quarter of 2015 were US$17 million compared to US$12 million for the same quarter last year. Core net earnings for the fourth quarter of 2014 included a net loss of US$4 million attributable to the transferred defined contribution business and an expense recovery related to the settlement of a legal matter of US$12 million in the fourth quarter of 2014. Excluding the impact of these items, core net earnings increased US$13 million, primarily due to higher net investment income as well as lower income taxes, compensation costs and volume-related expenses, partially offset by lower fee income. In the fourth quarter of 2015, reported net earnings, including financing and other expenses, were US$31 million compared to a net loss of US$1 million for the same quarter last year. Financing and other expenses for the fourth quarter of 2015 represent an expense recovery of US$14 million, which includes the positive impact of an adjustment to certain income tax estimates of US $27 million, compared to expenses of US$13 million for the same quarter last year. Excluding the impact of the adjustment to certain tax estimates, financing and other expenses were comparable to the same quarter last year.

For the twelve months ended December 31, 2015, core net earnings were US$43 million compared to a net loss of US$2 million for the same period last year. Core net earnings for the twelve months ended December 31, 2014 included a net loss of US$19 million attributable to the transferred defined contribution business, tax expenses of US$13 million related to a one-time tax adjustment from prior years pertaining to foreign seed capital and the expense recovery of US$12 million discussed for the in-quarter results. Excluding the impact of these items, core net earnings increased US$25 million, primarily due to lower operating expenses, mostly offset by lower net investment income. For the twelve months ended December 31, 2015, reported net earnings, including financing and other expenses, were US$25 million compared to a net loss of US$65 million for the same period last year. Financing and other expenses for the twelve month period ended December 31, 2015 decreased by US$45 million to US$18 million compared to the same period last year. Current year financing and other expenses includes the previously discussed adjustment of certain income tax estimates of US$27 million. Financing and other expenses in 2014 included the impact of share-based liability compensation expenses of US$23 million, and proxy expenses for the Putnam Funds of US$4 million, partially offset by the release of certain tax reserves of US$8 million related to the completion of prior year tax audits, which did not recur in 2015.

Core net earnings for the fourth quarter of 2015 increased by US$11 million compared to the previous quarter, primarily due to an increase in net investment income and lower compensation costs, partially offset by higher income taxes. Reported net earnings, including financing and other expenses, for the fourth quarter of 2015 were US$31 million compared to a net loss of US$6 million for the previous quarter. Financing and other expenses for the fourth quarter of 2015 represent an expense recovery of US$14 million compared to expenses of US$12 million for previous quarter. This change was primarily due to the positive impact of an adjustment to certain income tax estimates discussed for the in-quarter results.

## ASSETS UNDER MANAGEMENT

| **Assets under management ($US)** | **For the three months ended** | | | **For the twelve months ended** | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| **Beginning assets** | **$ 146,638** | $ 156,348 | $ 157,047 | **$ 157,572** | $ 149,556 |
| Sales - Mutual funds | **4,252** | 4,233 | 6,244 | **18,593** | 23,693 |
| Redemptions - Mutual funds | **(6,543)** | (5,518) | (5,573) | **(22,735)** | (17,803) |
| Net asset flows - Mutual funds | **(2,291)** | (1,285) | 671 | **(4,142)** | 5,890 |
| Sales - Institutional | **3,859** | 3,585 | 3,004 | **12,504** | 10,215 |
| Redemptions - Institutional | **(2,772)** | (2,164) | (4,913) | **(11,221)** | (14,803) |
| Net asset flows - Institutional | **1,087** | 1,421 | (1,909) | **1,283** | (4,588) |
| Net asset flows - Total | **(1,204)** | 136 | (1,238) | **(2,859)** | 1,302 |
| Impact of market/performance | **2,936** | (9,846) | 1,763 | **(6,343)** | 6,714 |
| **Ending assets** | **$ 148,370** | $ 146,638 | $ 157,572 | **$ 148,370** | $ 157,572 |
| Average assets under management | | | | | |
| Mutual funds | **80,180** | 83,584 | 85,462 | **84,689** | 82,735 |
| Institutional assets | **71,036** | 69,757 | 71,769 | **71,089** | 72,394 |
| **Total average assets under management** | **$ 151,216** | $ 153,341 | $ 157,231 | **$ 155,778** | $ 155,129 |

Average AUM for the three months ended December 31, 2015 decreased by US$6.0 billion to US$151.2 billion compared to the same quarter last year, primarily due to the cumulative impact of negative markets over the twelve month period as well as net asset outflows. Net asset outflows for the fourth quarter of 2015 of US$1.2 billion were comparable to the same quarter last year. In-quarter mutual fund net asset outflows were US$2.3 billion and institutional net asset inflows were US$1.1 billion.

Average AUM for the twelve months ended December 31, 2015 increased by US$0.6 billion to US$155.8 billion compared to the same period last year, primarily due to the impact of overall positive market and investment performance, mostly offset by net asset outflows. Net asset outflows for the twelve months ended December 31, 2015 were US$2.9 billion compared to net asset inflows of US$1.3 billion for the same period last year. Year-to-date mutual fund net asset outflows were US$4.1 billion and institutional net asset inflows were US$1.3 billion.

Average AUM decreased by US$2.1 billion compared to the previous quarter, primarily due to the impact of markets, driven by the timing of market movements during the quarters, and net asset outflows.

**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.*

In 2016, 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, Defined Contribution Investment Only and Registered Investment Advisors, while maintaining its industry recognized reputation for service excellence.

Putnam continues to build strong, long-term investment performance across asset classes that have been recognized in the marketplace through accolades from industry observers. Putnam remains committed to providing clients with superior, risk-adjusted performance.

Innovation will remain a powerful differentiator in 2016, as Putnam further develops its product offerings, service features and operational functions, while bolstering its corporate and business/product brand image with a wide range of key constituents. Further, Putnam intends to continue to invest in technology in order to scale its business model more cost effectively and expand its distribution reach.

## *UNITED STATES CORPORATE*

United States 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 2015, United States Corporate had a net loss of US$2 million, which was comparable to the same period in 2014.

For the twelve months ended December 31, 2015, United States Corporate's net loss increased by US$2 million to US$6 million compared to the same period in 2014, due to RPS related restructuring and acquisition expenses.

The net loss for the three months ended December 31, 2015 of US$2 million was comparable to the previous quarter.

## EUROPE

The Europe segment comprises two distinct business units: Insurance & Annuities and Reinsurance, together with an allocation of a portion of Lifeco's corporate results. Insurance & Annuities provides protection and wealth management products, including payout annuity products, through subsidiaries of Canada Life in the U.K., the Isle of Man and Germany, as well as through Irish Life in Ireland. Reinsurance operates primarily in the U.S., Barbados and Ireland, and is conducted through Canada Life, London Life and their subsidiaries.

**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.

Currency translation impact is a non-IFRS financial measure that highlights the impact of changes in currency translation rates on IFRS results. This measure provides useful information as it facilitates comparability of results between periods. Refer to the Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

## BUSINESS PROFILE

### INSURANCE & ANNUITIES

The core products offered in the U.K. are payout annuities, savings and group insurance. These products are distributed through independent financial advisors (IFAs) and employee benefit consultants. The offshore operations based in the Isle of Man and Ireland provide investment, savings and individual protection products that are sold through IFAs and private banks in the U.K. Canada Life Investments is the fund management division in the U.K. and manages over £36 billion of assets. These include equities, fixed-income, property, mortgages and cash for companies in the Lifeco group as well as a wide range of life, pension and collective funds. The funds are distributed mainly through financial advisors as well as wealth managers and discretionary fund managers in the U.K.

The core products offered in Ireland are savings and investments, individual and group insurance as well as pension products through Irish Life. These products are distributed through independent brokers, a direct sales force and tied agent bank branches. Irish Life Investment Managers (ILIM) is the Company's fund management operation in Ireland. ILIM manages assets on behalf of a wide range of institutional and retail clients, occupational defined benefit and defined contribution pensions, large multinational corporations, charities and domestic companies and is the largest manager of Irish pension assets.

The German operation focuses on pension, lifetime GMWB and individual protection products that are distributed through independent brokers and multi-tied agents.

Insurance & Annuities continues to expand its presence in its defined market segments 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.

### REINSURANCE

Reinsurance operates primarily in the U.S., Barbados and Ireland. In the U.S., the reinsurance business operates through branches of Canada Life, London Life, subsidiaries of London Life and an indirect subsidiary of Great-West Financial. In Barbados, the reinsurance business operates primarily through branches of Canada Life, London Life and subsidiaries of London Life. In Ireland, the reinsurance business operates through subsidiaries of Canada Life.

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 allow those companies to spread their insurance risk.

The product portfolio offered by the Company includes life, annuity as well as property and casualty reinsurance, provided on both a proportional and non-proportional basis.

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 may produce benefits that are reflected in one or more of the Company's other business units.

# MARKET OVERVIEW

## PRODUCTS AND SERVICES

### INSURANCE & ANNUITIES

| MARKET POSITION | PRODUCTS AND SERVICES | DISTRIBUTION |
|---|---|---|
| **U.K.**<br>• The market leader of the group life market, with 26% share(1)<br>• A market leader in group income protection with 20% share(1)<br>• Among the top five insurers in payout annuities, with 20% market share(2)<br>• A market leading offshore life company selling into the U.K. market, with 25% market share(3)<br>• Among the top ten in the onshore unit-linked single premium bond market with a 9% market share(2)<br>**Ireland**<br>• The market leading life assurance company with 36% share(4)<br>• Strong position in the retail life and pensions market with a 30% share(4)<br>• Leading positions in the group pensions, group risk and corporate annuities markets<br>• ILIM is the largest institutional fund manager in Ireland with over €50 billion assets under management<br>**Germany**<br>• One of the top three insurers in the independent intermediary unit-linked market(4)<br>• Among the top ten in the overall unit-linked market(3) | **U.K.**<br>• Individual and Bulk Payout Annuities<br>• Fixed Term Annuities<br>• Pension Investment<br>• Savings<br>• Life Insurance<br>• Income Protection (Disability)<br>• Critical Illness<br>**Ireland**<br>• Individual and Group Risk & Pensions<br>• Individual and Bulk Annuities<br>• Wealth Management Services<br>• Individual Savings and Investment<br>• Institutional Investment Management<br>**Germany**<br>• Pensions<br>• Income Protection (Disability)<br>• Critical Illness<br>• Variable Annuities (GMWB)<br>• Individual Life Insurance | **U.K.**<br>• IFAs<br>• Private Banks<br>• Employee Benefit Consultants<br>**Ireland**<br>• Independent Brokers<br>• Pensions and Investment Consultants<br>• Direct Sales Force<br>• Tied Bank Branch Distribution with various Irish Banks<br>**Germany**<br>• Independent Brokers<br>• Multi-tied Agents |

(1) As at December 31, 2014
(2) Market share based on annualized Q1 to Q3 2015 data through IFAs, restricted whole market advisors and Non-Advised Distributor
(3) As at September 30, 2015
(4) As at June 30, 2015

### REINSURANCE

| MARKET POSITION | PRODUCTS AND SERVICES | DISTRIBUTION |
|---|---|---|
| • Among the top two life reinsurers in the U.S. for assumed structured life reinsurance(1)<br>• Positioned to participate in the developments of the evolving European structured life reinsurance market<br>• Long-standing provider of a range of Property and Casualty catastrophe retrocession protection coverages<br>• Leading provider of U.K. and other European annuity / longevity reinsurance | **Life**<br>• Yearly Renewable Term<br>• Co-insurance<br>• Modified Co-insurance<br>• Capital Relief Solutions<br>**Property & Casualty**<br>• Catastrophe retrocession<br>**Annuity / Longevity**<br>• Payout Annuity<br>• Fixed Annuity<br>• Longevity Protection | • Independent Reinsurance Brokers<br>• Direct Placements |

(1) As at December 31, 2014

## COMPETITIVE CONDITIONS

### United Kingdom

In the U.K., the Company has strong market positions for group risk, payout annuities and wealth management.

The U.K. Budget changes became effective April 2015, which provided greater flexibility for individuals retiring after April 1, 2015, causing a reduction in the demand for payout annuity products. In 2015, the Company continued to offer both standard and enhanced annuities, where prospective policyholders are medically underwritten before acceptance, and was able to maintain its market share. During 2015, the Company introduced new products under the CanRetire brand for individuals who want to take advantage of the greater pension flexibility. The Company also launched a bulk annuity offering, which is aimed at trustees of defined benefit plans, who want to insure pension annuities in payment. There have been a number of new entrants into this market, increasing competition, following the reduction in the overall size of the individual payout annuity market.

In 2015, the offshore wealth management operations experienced a relatively flat market, mainly the result of continued lower volumes of business from the private banking sector. The more profitable retail sales have been maintained as have sales via discretionary fund management firms. Future estate planning continues to be an area of focus for U.K. advisors and Canada Life International holds a market leading position in this sector of the market.

In July 2015, Canada Life acquired Legal & General International (Ireland) Limited (LGII), providing additional scale to its offshore operation in Ireland and gaining access to new institutional relationships within the U.K. market.

The onshore wealth management market has continued to stabilize after the decline in 2013 of investment bond business, resulting from the change in regulation affecting distribution.

### Ireland

The Company maintained its market-leading presence in Ireland through Irish Life and continues to be the largest life assurance company with a market share of 36%. Irish Life follows a multi-channel distribution strategy with the largest 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 Ireland's largest institutional fund manager with over €50.4 billion of assets under management as at December 31, 2015.

Setanta Asset Management (Setanta), a subsidiary of Canada Life, manages assets for a number of institutional clients, both third-party institutions as well as for companies in the Lifeco group, and has €7.6 billion of assets under management as at December 31, 2015.

### Germany

Canada Life has established a leading position among providers of unit-linked products to the German independent intermediary market. This market remains competitive as more companies enter the market due to the projected strong growth over the coming years. Throughout this period of increased competition, the Company has maintained a top three position in this segment of the market through continuous product, technology and service improvements. In 2015, there was a decrease in the demand for traditional German insurance products following the reduction in the statutory guaranteed interest rate on these products. This created a growth opportunity for Canada Life and its unit-linked products.

### Reinsurance

In the U.S. life reinsurance market, the demand for capital relief remains strong because of continuing conservative reserving requirements on term and universal life products. Several competitors are now focusing on growing their share of this market, which increased competition for this business. However, industry surveys released in 2015 confirmed that the Company remains one of the top two providers of capital relief solutions in the U.S. market.

The Company has also had success in traditional life reinsurance as the number of remaining life reinsurers is reducing due to consolidation and clients' value diversification. The Company's financial strength and ability to offer both capital solutions and traditional mortality reinsurance continues to be a competitive advantage.

In Europe, Solvency II dominates the regulatory landscape and interest in capital relief transactions that produce capital benefits under the new regime continues to grow. Demand for longevity reinsurance remains very strong in the U.K. and some continental European countries. As a result, there are now more reinsurers participating in this market, but even so demand for longevity coverage continues to exceed supply.

Property insurers/reinsurers saw few major catastrophes in 2015. The 2015 Atlantic hurricane season had a below average number of major storms. As a result, pricing in the property catastrophe market continues to be challenging.

**Selected consolidated financial information - Europe**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Premiums and deposits | **$ 6,056** | $ 9,841 | $ 5,340 | **$ 27,763** | $ 19,359 |
| Fee and other income | **327** | 284 | 290 | **1,221** | 1,193 |
| Net earnings - common shareholders | **303** | 296 | 274 | **1,174** | 1,038 |
| Total assets | **$ 167,265** | $ 162,402 | $ 142,317 | | |
| Proprietary mutual funds and institutional net assets | **29,210** | 27,575 | 20,736 | | |
| Total assets under management | **196,475** | 189,977 | 163,053 | | |
| Other assets under administration | **41,587** | 41,146 | 41,806 | | |
| **Total assets under administration** | **$ 238,062** | $ 231,123 | $ 204,859 | | |

**Net earnings - common shareholders**

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Insurance & Annuities | **$ 234** | $ 229 | $ 218 | **$ 886** | $ 810 |
| Reinsurance | **73** | 71 | 71 | **313** | 265 |
| Europe Corporate | **(4)** | (4) | (15) | **(25)** | (37) |
| Net earnings | **$ 303** | $ 296 | $ 274 | **$ 1,174** | $ 1,038 |

**2015 DEVELOPMENTS**

- Net earnings for the twelve months ended December 31, 2015 were $1,174 million, an increase of $136 million compared to the same period in 2014. Net earnings for the three months ended December 31, 2015 were $303 million, an increase of $29 million from the same quarter last year.
- Premiums and deposits for the twelve months ended December 31, 2015 increased by $8.4 billion to $27.8 billion compared to the same period in 2014. Premiums and deposits for the three months ended December 31, 2015 were $6.1 billion, an increase of $0.7 billion from the same quarter last year, primarily due to higher sales across most product lines.
- Fee and other income for the twelve months ended December 31, 2015 increased by $28 million to $1,221 million compared to the same period in 2014. Fee and other income for the three months ended December 31, 2015 increased by $37 million to $327 million compared to the same quarter last year, primarily due to higher asset management fees.

- On March 3, 2015, the Company announced that it reached an agreement with The Equitable Life Assurance Society (Equitable Life) in the U.K. to acquire, through its wholly owned subsidiary, Canada Life Limited, the assets and liabilities associated with Equitable Life's annuity business. The transaction involved the initial reinsurance of approximately 31,000 policies, with liabilities and supporting assets of approximately $1.6 billion. The initial reinsurance arrangement was effective January 1, 2015 and the ultimate transfer is expected to be completed in 2016, subject to court approval.
- During the second quarter of 2015, the last of the policy migration activities for the Irish Life integration was successfully concluded. The Company now expects to realize €48 million of annualized synergies from the acquisition of Irish Life, exceeding the annualized synergy target of €40 million by 20%.
- On July 1, 2015, the Company, through its wholly owned subsidiary The Canada Life Group (U.K.) Limited, completed the acquisition of Legal & General International (Ireland) Limited (LGII), a Dublin-based subsidiary of the Legal & General Group Plc. LGII provides quality investment and wealth management solutions, primarily focused on the U.K. high-net-worth market. LGII now operates as Canada Life International Assurance (Ireland) (CLIAI). Prior to the acquisition, these assets were included in other assets under administration, as a subsidiary of Irish Life provided recordkeeping and administrative functions for the LGII portfolio; these assets are now included in segregated funds.
- One year since the re-launch of the Irish Life brand under the slogan "We know Irish life. We are Irish Life." the Company is now the preferred brand for consumers in the Pensions and Life Insurance categories and has strengthened its brand position into the top three in the Retail Investments category. The re-launch campaign won a number of awards, including best integrated campaign at the All Ireland Marketing Awards.
- At the 2015 Irish Pensions Awards, Irish Life Investment Managers was awarded the Investment Manager of the Year award for the third year in a row. In addition, Setanta Asset Management was awarded Equities Manager of the Year for the fourth consecutive year, reflecting very strong active equity performance.

## BUSINESS UNITS – EUROPE

### *INSURANCE & ANNUITIES*

#### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Premiums and deposits | **$ 4,497** | $ 8,354 | $ 3,875 | **$ 22,127** | $ 14,931 |
| Sales | **3,917** | 7,716 | 3,155 | **19,485** | 12,388 |
| Fee and other income | **320** | 278 | 284 | **1,197** | 1,155 |
| Net earnings | **234** | 229 | 218 | **886** | 810 |

**Premiums and deposits**
Premiums and deposits for the fourth quarter of 2015 increased by $0.6 billion to $4.5 billion compared to the same quarter last year. The increase was due to higher sales across most product lines in the U.K., including the contribution from the acquired LGII business, Germany and Ireland as well as the impact of currency movement.

For the twelve months ended December 31, 2015, premiums and deposits increased by $7.2 billion to $22.1 billion compared to the same period last year. The increase was primarily due the acquisition of Equitable Life's annuity business in the first quarter of 2015, higher fund management sales, including $3.5 billion relating to Ark Life in the third quarter of 2015, as well as higher sales across most product lines in the U.K., Ireland and Germany. The increase was partially offset by the impact of currency movement, driven by the weakening of the euro in the first half of 2015, compared to the same period in 2014.

Premiums and deposits for the fourth quarter of 2015 decreased by $3.9 billion compared to the previous quarter, primarily due to lower fund management sales in Ireland, which included $3.5 billion related to Ark Life in the third quarter of 2015. The decrease was partially offset by higher sales across most product lines in Ireland and Germany as well as higher sales of wealth management products in the U.K.

**Sales**

Sales for the fourth quarter of 2015 increased by $0.8 billion to $3.9 billion compared to the same quarter last year. For the twelve months ended December 31, 2015, sales increased by $7.1 billion to $19.5 billion compared to the same period last year. The increases in both the three month and twelve month periods were due to the same reasons discussed for premiums and deposits for the respective periods.

Sales for the fourth quarter of 2015 decreased by $3.8 billion from the previous quarter, due to the same reasons discussed for premiums and deposits for the same period.

**Fee and other income**

Fee and other income for the fourth quarter of 2015 increased by $36 million to $320 million compared to the same quarter last year, primarily due to higher asset management fees in Ireland and Germany, driven by growth in assets under management and the impact of currency movement.

For the twelve months ended December 31, 2015, fee and other income increased by $42 million to $1,197 million compared to the same period last year, primarily due to the higher asset management fees in Ireland and Germany, driven by growth in assets under management, partially offset by the impact of currency movement, driven by the weakening of the euro in the first half of 2015, compared to the same period in 2014.

Fee and other income for fourth quarter of 2015 increased by $42 million compared the previous quarter, primarily due to higher asset management fees in Ireland and Germany, driven by growth in assets under management as well as higher gain related fee income amounts associated with a closed block of Irish unit-linked business. The fee income on this block of business is particularly sensitive to market levels at the start and end of a reporting period.

**Net earnings**

Net earnings for the fourth quarter of 2015 increased by $16 million to $234 million compared to the same quarter last year. The increase was primarily due to favourable morbidity experience in the U.K., higher contributions from investment experience in Ireland, a higher percentage of income subject to lower rates of income tax in foreign jurisdictions and the impact of currency movement. The increase was partially offset by less favourable mortality experience in the U.K. and lower contributions from insurance contract liability basis changes. In 2014, insurance contract liability basis changes mostly reflected the impact of changes to actuarial standards related to economic reinvestment assumptions. Net earnings included $110 million in Ireland, up $40 million from the same quarter in 2014, primarily due to higher contributions from investment experience and benefits from integration related activities.

Net earnings for the twelve months ended December 31, 2015 increased by $76 million to $886 million compared to the same period last year. The increase was primarily due to the impact of currency movement, higher contributions from insurance contract liability basis changes, higher asset management fees and favourable morbidity experience. These items were mostly offset by the impact of lower contributions from investment experience, lower U.K. payout annuity new business volumes and less favourable mortality experience in the U.K. Net earnings included $290 million in Ireland, up $27 million from the same period in 2014. The increase was primarily due to higher net fee income, higher contributions from investment experience and an increase in benefits from integration synergies and integration related activities, partially offset by lower contributions from insurance contract liability changes and the impact of currency movement, resulting from the weakening of the euro in the first half of 2015 compared to the same period in 2014.

Net earnings for the fourth quarter of 2015 increased by $5 million compared to the previous quarter as higher contributions from investment experience in Ireland were largely offset by lower contributions from insurance contract liability changes.

**OUTLOOK – INSURANCE & ANNUITIES**

*Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.*

In Europe, the implementation of Solvency II regulations has been the focus of the Company's regulated European businesses during 2015. Transitional measures, matching adjustments and volatility adjustments were applied for by a number of the Company's European subsidiaries and were approved as planned in 2015. In 2016, work will continue on developing the Company's internal risk models and undertaking steps to help manage the potential capital volatility under the new regulations.

***United Kingdom*** – The outlook for payout annuities in 2016 is stable as the U.K. budget changes previously disclosed became effective in April 2015. These changes provide greater flexibility for those individuals with defined contribution pensions to access their savings in retirement. As expected, some individuals have chosen to retain their previous investments while drawing a pension income, rather than buying a payout annuity. However, the Company expects there will still be a demand from individuals for the guaranteed income provided by payout annuities. In 2016, the Company will look to develop its presence in the bulk annuity market, where trustees want to insure pension annuities in payment, and under the CanRetire brand will continue to develop additional products for individuals who prefer a more flexible product. The overall size of the retirement market is expected to grow as more retirees will have defined contribution pensions due to the closure of defined benefit schemes.

Canada Life continues to be a key player in the single premium investment bond marketplace. It will continue to develop a presence in both the offshore and onshore market segments. In 2016, the Company's distribution strategy for onshore will remain focused on IFAs. In the offshore wealth management segment, the outlook for 2016 is cautiously optimistic with an expectation that the market will experience modest growth. The private banking business is expected to stabilize in 2016. The Company expects business growth in 2016 will be driven by discretionary fund management wealth advisors, the retail market and through tax and estate planning products.

The outlook for the group life and health insurance operations remains positive. The business is benefiting from its strong segmental pricing discipline. With the market fundamentals of increased membership and salary inflation expected to slowly improve, the Company is well placed as the U.K. economy improves. The Group business will continue to show Group Income Protection pricing discipline, reflecting the low interest rate environment. The business has benefited from additional risk benefits within the operation's customer base as a result of the U.K. Government's Pensions Auto Enrolment initiative in the workplace. This initiative started in October 2012 and will be complete in 2018. During 2015, small employers began to enroll in this initiative and now present an opportunity to increase the penetration of the U.K. group market with new business sales. Larger Canada Life plans have grown, as the pension legislation has increased the membership of the associated group plans. The Company expects the expansion of the existing customer base experienced in recent years will moderate as larger employers cease to be greatly influenced by the legislation.

***Ireland*** **–** The economic recovery experienced in Ireland in 2014 continued into 2015, with private consumption increasing. The industry welcomed the elimination of the annual pension levy at the end of 2015, which was first introduced in 2011. These developments, coupled with an increase in employment levels and a projected strong gross domestic product (GDP) growth rate, are expected to positively influence growth in the life and pension new business markets in 2016.

During 2015, ILIM expanded into Canada and the U.S. with a number of newly attained relationships and specific mandates that utilize ILIM's active Quant solutions and ILIM's indexation capabilities. This creates a significant growth opportunity for ILIM, which is directly linked to relationships developed through companies in the Lifeco group.

***Germany –*** The outlook for the German business is positive and the Company expects continued growth in assets under management in 2016.

Sales of unit-linked products grew significantly in 2015, with sales up 50% from 2014 levels. In 2016, the Company expects to continue to grow its market share of unit-linked products, as the market for traditional fixed interest guaranteed products declines, due to lower interest rates and increasing costs of guarantees. The Company is positioning itself to further strengthen its presence in the unit-linked market through continued investments in product development, distribution technology and service improvements.

Sales of occupational pension and protection products have continued to grow in 2015 and the Company expects the growth to continue in 2016.

## *REINSURANCE*

### OPERATING RESULTS

| | For the three months ended | | | For the twelve months ended | |
|---|---|---|---|---|---|
| | **Dec. 31 2015** | Sept. 30 2015 | Dec. 31 2014 | **Dec. 31 2015** | Dec. 31 2014 |
| Premiums and deposits | **$ 1,559** | $ 1,487 | $ 1,465 | **$ 5,636** | $ 4,428 |
| Fee and other income | **7** | 6 | 6 | **24** | 38 |
| Net earnings | **73** | 71 | 71 | **313** | 265 |

**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 2015 increased by $0.1 billion to $1.6 billion compared to the same quarter last year, primarily due to new and restructured reinsurance agreements and the impact of currency movement.

For the twelve months ended December 31, 2015, premiums and deposits increased by $1.2 billion to $5.6 billion compared to the same period last year. The increase was primarily due to new and restructured reinsurance agreements as well as the impact of currency movement, partially offset by commuted treaties and an annuity reinsurance agreement entered into during 2014.

Premiums and deposits for the fourth quarter of 2015 increased by $0.1 billion compared to the previous quarter, primarily due to higher business volumes and the impact of currency movement.

**Fee and other income**
Fee and other income for the fourth quarter of 2015 of $7 million was comparable to both the same quarter last year and the previous quarter.

For the twelve months ended December 31, 2015, fee and other income decreased by $14 million to $24 million compared to the same period last year. Certain life treaties were restructured in the fourth quarter of 2014 and result in lower fee income on an ongoing basis.

**Net earnings**
Net earnings for the fourth quarter of 2015 increased by $2 million to $73 million compared to the same quarter last year. The increase was primarily due to lower new business strain and currency movement, mostly offset by lower contributions from insurance contract liability basis changes.

For the twelve months ended December 31, 2015, net earnings increased by $48 million to $313 million compared to the same period last year. The increase was primarily due to favorable mortality experience, changes to certain income tax estimates, higher contributions from insurance contract liability basis changes as well as the impact of currency movement. These increases were partially offset by higher new business strain in the traditional life business and less favorable morbidity experience.

Net earnings for the fourth quarter of 2015 increased by $2 million compared to the previous quarter, primarily due to due to higher contributions from insurance contract liability basis changes, partially offset by less favourable claims experience.

**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 2016, new state specific regulations will impact the collateral needed for non-licensed reinsurance entities. This will affect the types of insurance products sold and the reinsurance needs over the next few years. Market demand for health reinsurance is expected to increase due to the *Affordable Care Act*. Additionally, new U.S. regulatory rules affecting the calculation of statutory reserves are expected to be effective in 2017.

In Europe, Solvency II is expected to continue to be the main driver of the business in 2016 and beyond. The Company's reinsurance operation is preparing to help European clients and other affiliated companies meet the potential capital challenges and business opportunities arising from these regulatory changes.

As 2015 saw few major catastrophes, the Company expects 2016 pricing for the property and casualty market will continue to soften, although not as significantly as in the previous two years. Hedge fund capacity, collateralized covers and catastrophe bond issuance are expected to continue to grow in 2016, while buyer demand is under downward pressure due to increasing client retention. The primary focus for 2016 will be to continue to move further away from the exposure risk, continue to utilize the most recent U.S. modeling updates from Risk Management Solutions (RMS) and manage geographic exposures without significant impact on margins.

## *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 2015, Europe Corporate had a net loss of $4 million compared to a net loss of $15 million for the same quarter last year. The change was primarily due to lower expense provisions on the Company's legacy international businesses and lower restructuring and acquisition costs. Fourth quarter 2015 results include restructuring and acquisition costs of $2 million relating to the acquisition of LGII, compared to $6 million relating to the acquisition of Irish Life for the same quarter last year.

For the twelve months ended December 31, 2015, Europe Corporate had a net loss of $25 million compared to a net loss of $37 million for the same period last year. The change was due to the same reasons discussed for the in-quarter results. Included in the year-to-date net loss was $20 million of Irish Life and LGII related restructuring and acquisition costs in 2015, compared to $25 million of Irish Life restructuring costs for the same period in 2014.

The net loss for the three months ended December 31, 2015 was comparable to the previous quarter.

## 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, 2015 of $7 million was comparable to the same quarter last year, as lower preferred share dividend payments were mostly offset by lower investment income. In 2015, preferred share dividends related to preferred shares issued in the second quarter of 2014 were allocated to the Canada segment.

For the twelve months ended December 31, 2015, Lifeco Corporate had a net loss of $16 million, compared to a net loss of $26 million for the same period last year. The change was primarily due to lower preferred share dividends and higher investment income.

The net loss for the three months ended December 31, 2015 of $7 million decreased from net earnings of $2 million for the previous quarter, primarily due to lower investment income. In addition, net earnings for the third quarter of 2015 were positively impacted by changes to certain income tax estimates.

# OTHER INFORMATION

## SELECTED ANNUAL INFORMATION

| (in $ millions, except per share amounts) | Years ended December 31 | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| **Total revenue** | **$ 33,820** | $ 39,181 | $ 26,446 |
| **Net earnings - common shareholders** | | | |
| Operating earnings[1] | **$ 2,762** | $ 2,546 | $ 2,052 |
| Net earnings | **2,762** | 2,546 | 2,278 |
| **Net earnings per common share** | | | |
| Operating[1] | **$ 2.774** | $ 2.549 | $ 2.108 |
| Basic | **2.774** | 2.549 | 2.340 |
| Diluted | **2.768** | 2.546 | 2.297 |
| **Total assets** | | | |
| Total assets | **$ 399,935** | $ 356,709 | $ 325,876 |
| Proprietary mutual funds and institutional net assets | **252,480** | 216,271 | 185,243 |
| Total assets under management | **652,415** | 572,980 | 511,119 |
| Other assets under administration | **560,102** | 490,353 | 247,139 |
| Total assets under administration | **$ 1,212,517** | $ 1,063,333 | $ 758,258 |
| **Total liabilities** | **$ 374,675** | $ 334,812 | $ 306,046 |
| **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 J First Preferred[2] | **—** | — | 1.50000 |
| Series L First Preferred | **1.41250** | 1.41250 | 1.41250 |
| Series M First Preferred | **1.450** | 1.450 | 1.450 |
| Series N First Preferred | **0.912500** | 0.912500 | 0.912500 |
| Series O First Preferred[3] | **—** | — | — |
| 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[4] | **1.312500** | 0.799185 | — |
| Common | **1.304** | 1.230 | 1.230 |

(1) Operating earnings (a non-IFRS financial measure) excludes the impact of certain litigation provisions. Refer to the "Cautionary Note Regarding Non-IFRS Financial Measures" section of this document.
(2) The Series J First Preferred Shares were redeemed on December 31, 2013.
(3) The Series O First Preferred Shares were issued on December 31, 2015.
(4) The Series S First Preferred Shares were issued on May 22, 2014. The first dividend payment was made on September 30, 2014 in the amount of $0.47106 per share. Regular quarterly dividends are $0.328125 per share.

## QUARTERLY FINANCIAL INFORMATION

| **Quarterly financial information** (in $ millions, except per share amounts) | **2015** | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q4** | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| **Total revenue**(1) | **$ 8,321** | $ 8,596 | $ 4,224 | $12,679 | $10,723 | $ 8,451 | $10,070 | $ 9,937 |
| **Common shareholders** | | | | | | | | |
| **Net earnings** | | | | | | | | |
| Total | **683** | 720 | 659 | 700 | 657 | 687 | 615 | 587 |
| Basic - per share | **0.688** | 0.724 | 0.661 | 0.702 | 0.658 | 0.687 | 0.616 | 0.587 |
| Diluted - per share | **0.686** | 0.722 | 0.659 | 0.700 | 0.657 | 0.686 | 0.615 | 0.587 |

(1) Revenue includes the change in fair value through profit or loss on investment assets.

Lifeco's consolidated net earnings attributable to common shareholders were $683 million for the fourth quarter of 2015 compared to $657 million reported a year ago. On a per share basis, this represents $0.688 per common share ($0.686 diluted) for the fourth quarter of 2015 compared to $0.658 per common share ($0.657 diluted) a year ago.

Total revenue for the fourth quarter of 2015 was $8,321 million and comprises premium income of $6,162 million, regular net investment income of $1,670 million, a negative change in fair value through profit or loss on investment assets of $844 million and fee and other income of $1,333 million.

## DISCLOSURE CONTROLS AND PROCEDURES

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information relating to the Company which is required to be disclosed in reports filed 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, 2015 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.

Management evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2015 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.

## TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Great-West Life provided insurance benefits to other companies within the Power Financial Corporation, Lifeco's parent, group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM.

At December 31, 2015 the Company held $43 million ($43 million in 2014) of debentures issued by IGM.

During the normal course of business in 2015, Great-West Life, London Life and segregated funds maintained by London Life purchased residential mortgages of $206 million from IGM ($184 million in 2014).

The Company provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of the Company and its subsidiaries.

As at December 31, 2015 and December 31, 2014, there were no significant outstanding loans or guarantees and no loans or guarantees issued during 2015 or 2014. There were no provisions for uncollectible amounts from related parties during 2015 and 2014.

## 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**<br>**Period ended** | **Dec. 31 2015** | Sept. 30 2015 | June 30 2015 | Mar. 31 2015 | Dec. 31 2014 | Sept. 30 2014 | June 30 2014 | Mar. 31 2014 |
|---|---|---|---|---|---|---|---|---|
| **United States dollar** | | | | | | | | |
| Balance sheet | **$ 1.38** | $ 1.34 | $ 1.25 | $ 1.27 | $ 1.16 | $ 1.12 | $ 1.07 | $ 1.11 |
| Income and expenses | **$ 1.34** | $ 1.31 | $ 1.23 | $ 1.24 | $ 1.14 | $ 1.09 | $ 1.09 | $ 1.10 |
| **British pound** | | | | | | | | |
| Balance sheet | **$ 2.04** | $ 2.02 | $ 1.96 | $ 1.88 | $ 1.81 | $ 1.82 | $ 1.83 | $ 1.84 |
| Income and expenses | **$ 2.03** | $ 2.03 | $ 1.89 | $ 1.88 | $ 1.80 | $ 1.82 | $ 1.84 | $ 1.83 |
| **Euro** | | | | | | | | |
| Balance sheet | **$ 1.50** | $ 1.50 | $ 1.39 | $ 1.36 | $ 1.40 | $ 1.42 | $ 1.46 | $ 1.52 |
| Income and expenses | **$ 1.46** | $ 1.46 | $ 1.36 | $ 1.40 | $ 1.42 | $ 1.44 | $ 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.