GREAT-WEST
LIFECO INC.

Management's Discussion and Analysis

For the year 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED DECEMBER 31, 2016

DATED: FEBRUARY 9, 2017

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, 2016 and includes a comparison to the corresponding periods in 2015, to the three months ended September 30, 2016, and to the Company's financial condition as at December 31, 2015. 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, the 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, 2016.

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 2016 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 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Premiums and deposits:					
Amounts reported in the financial statements					
Net premium income (Life insurance, guaranteed annuities and insured health products)	**$ 8,905**	$ 8,334	$ 6,162	**$ 31,125**	$ 24,501
Policyholder deposits (segregated funds):					
Individual products	**3,399**	3,211	3,814	**13,512**	12,983
Group products	**1,875**	1,875	2,001	**7,846**	8,609
Premiums and deposits reported in the financial statements	**14,179**	13,420	11,977	**52,483**	46,093
Self-funded premium equivalents (Administrative services only contracts)[1]	**691**	655	665	**2,751**	2,625
Proprietary mutual funds and institutional deposits[1]	**15,169**	15,187	15,480	**62,232**	56,257
Total premiums and deposits[1]	**30,039**	29,262	28,122	**117,466**	104,975
Fee and other income	**1,345**	1,271	1,333	**5,101**	5,058
Paid or credited to policyholders[2]	**4,373**	10,589	5,532	**34,675**	22,842
Earnings					
Net earnings - common shareholders	**$ 676**	$ 674	$ 683	**$ 2,641**	$ 2,762
Per common share					
Basic earnings	**0.686**	0.682	0.688	**2.668**	2.774
Dividends paid	**0.346**	0.346	0.326	**1.384**	1.304
Book value[3]	**19.76**	19.18	20.06		
Return on common shareholders' equity[4]					
Net earnings	**13.8%**	13.8%	14.7%		
Total assets per financial statements	**$ 399,912**	$ 401,489	$ 399,935		
Proprietary mutual funds and institutional net assets[5]	**259,215**	256,544	252,480		
Total assets under management[5]	**659,127**	658,033	652,415		
Other assets under administration[6]	**589,291**	570,475	560,102		
Total assets under administration	**$ 1,248,418**	$ 1,228,508	$ 1,212,517		
Total equity	**$ 25,008**	$ 24,256	$ 25,260		

(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 contract liabilities.
(3) Certain comparative figures have been adjusted as described in note 33 to the Company's December 31, 2016 consolidated financial statements.
(4) Return on common shareholders' equity is detailed within the "Capital Allocation Methodology" section.
(5) 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 of the investment policies.
(6) 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 include recordkeeping, safekeeping, collecting investment income, settling of transactions or other administrative services. Administrative services are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

LIFECO 2016 HIGHLIGHTS

Maintained strong capital position and solid financial performance

- The Company's strong capital position is evidenced by a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio at December 31, 2016 of 240% for The Great-West Life Assurance Company, Lifeco's major Canadian operating subsidiary.
- For the twelve months ended December 31, 2016, net earnings attributable to common shareholders were $2,641 million, a decrease of 4% from the previous year. While net earnings in the Canada and Europe segments finished the year up from 2015, earnings were negatively impacted by currency movement, particularly the weakening of the British pound, and lower earnings in the U.S. segment, which included $20 million of restructuring costs related to a realignment of Putnam.
- In 2016, Lifeco's quarterly common share dividend increased 6% to $0.3460 per share.
- The Company returned to the European capital markets in December 2016 with the issuance of 500 million euro-denominated 10-year bonds, with proceeds used to further support foreign operations and for general corporate purposes. The bonds pay an annual coupon of 1.75%, are rated A+ by Standard & Poor's Rating Services and are listed on the Irish Stock Exchange.
- The Company's financial leverage ratio at December 31, 2016 was 28%, including the issuance of the 500 million euro-denominated bonds. This was 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.

Stability during challenging global economic and regulatory conditions

- On June 23, 2016, the U.K. voted to leave the European Union (EU). The Company's operations in Europe have strong, stable businesses and a diversified investment portfolio. The Company's U.K. operations are primarily domestic businesses and have continued to perform well during this period of uncertainty. Operations in Ireland and Germany are domestic and have experienced minimal impact. These businesses are appropriately capitalized and the Company remains committed to these markets. The most notable impact on the Company's financial results in 2016 has been the weakening of the British pound. The decline in the second half of 2016 reduced the average currency translation rate for the Company's British pound net earnings by 12% compared to the first half of 2016. The Company will continue to work closely with customers, business partners and regulators over the next few years as the U.K. and the EU enter a period of negotiation and agree on their new relationship.
- On September 12, 2016, the Office of the Superintendent of Financial Institutions (OSFI) issued the Life Insurance Capital Adequacy Test (LICAT) guideline. Effective January 1, 2018, OSFI plans for the LICAT guideline to replace the MCCSR guideline. OSFI has stated that the LICAT guideline is not expected to increase the amount of capital in the industry compared to the current MCCSR guideline and is continuing to conduct assessments of the new guideline. The Company will continue its ongoing dialogue with OSFI and industry participants during 2017.
- In Europe, Solvency II regulations were effective in 2016 and have been a focus of the Company's regulated European businesses. All of the Company's regulated European-based subsidiaries have met the new requirements. During the year, the Company effectively managed capital volatility under the new regulations. In 2017, work will continue on refining the Company's internal risk models and management of potential capital volatility under the new regulations.

- The recent elections in the U.S. have brought into focus the prospects for significant policy changes, including corporate federal tax reform. Both Congress and the President share the same goal of reducing corporate income tax rates for businesses. A reduction in the corporate tax rate would likely have a favourable impact on the Company's effective tax rate in the years subsequent to the year of enactment. Any change in tax laws and rates may affect recorded deferred tax assets and deferred tax liabilities and the effective tax rate in the future. A reduction in the statutory corporate tax rate would result in a reduction in the deferred tax asset or deferred tax liability, which may give rise to a one-time negative impact on the financial results of operations in the year of enactment. Any one-time adjustment to the deferred tax accounts would not affect cash taxes paid.

Outlook for 2017

- Lifeco is focused on investing strategically to drive growth and productivity while maintaining a strong risk and expense discipline to deliver long-term value to its customers and shareholders.
- In Canada, the core business units will be realigned to focus on individual and group customers supported by a new strategic customer marketing function. With the goal of creating a more holistic customer experience, these changes will support earnings growth balanced with reinvestment in customer-centered innovations and service offerings, generated through productivity gains and cost savings.
- In the U.S., work continues on streamlining back office processes to support Empower Retirement growth, cost savings and improving customer experience and engagement. At Putnam, expense reductions resulting from the realignment of resources were announced to support the objective of building a scalable, profitable asset management franchise with continued focus on strong investment performance. Following the U.S. election, the U.S. markets and interest rates have increased which is expected to have a positive impact on the results of the business; although volatility is expected to continue into 2017 as the new Presidential Administration unveils its initiatives.
- In Europe, development of the Company's U.K. bulk annuity capabilities will continue to complement the Company's strong position in the U.K. retail payout annuity market. Investment in digital opportunities will remain a focal point to grow the Company's market leading U.K. group risk business. In Ireland, deepening and broadening the market leading retail, corporate and investment management businesses while managing costs will continue to be the focus. In Germany, the Company will strengthen its presence in the growing market for pension unit-linked products by maintaining innovative products and a strong service offering. Investments will continue in technology to drive processing efficiencies and lay the foundation for enhanced future capabilities for the German business. Reinsurance will build on its diversified multi-niche base to continue to meet client needs.

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 (net earnings) for the three month period ended December 31, 2016 were $676 million compared to $683 million a year ago and $674 million in the previous quarter. On a per share basis, this represents $0.686 per common share ($0.685 diluted) for the fourth quarter of 2016 compared to $0.688 per common share ($0.686 diluted) a year ago and $0.682 per common share ($0.681 diluted) in the previous quarter. Included in Lifeco's net earnings for the fourth quarter of 2016 were restructuring costs related to a realignment of the Asset Management business unit (Putnam) of $20 million.

For the twelve months ended December 31, 2016, Lifeco's net earnings were $2,641 million compared to $2,762 million a year ago. On a per share basis, this represents $2.668 per common share ($2.663 diluted) for 2016 compared to $2.774 per common share ($2.768 diluted) a year ago.

Net earnings - common shareholders	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Canada					
Individual Insurance	**$ 103**	$ 70	$ 51	**$ 345**	$ 307
Wealth Management	**132**	99	119	**436**	479
Group Insurance	**98**	110	74	**400**	432
Canada Corporate	**(7)**	10	18	**37**	(23)
	326	289	262	**1,218**	1,195
United States					
Financial Services	**80**	89	86	**333**	384
Asset Management	**(3)**	(6)	41	**(52)**	32
U.S. Corporate	**(22)**	(5)	(2)	**(32)**	(7)
	55	78	125	**249**	409
Europe					
Insurance & Annuities	**225**	251	234	**927**	886
Reinsurance	**86**	54	73	**277**	313
Europe Corporate	**(4)**	8	(4)	**(4)**	(25)
	307	313	303	**1,200**	1,174
Lifeco Corporate	**(12)**	(6)	(7)	**(26)**	(16)
Net earnings - common shareholders	**$ 676**	$ 674	$ 683	**$ 2,641**	$ 2,762

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 2016, except in the U.K., where rates decreased. The net change in interest rates did not impact the range of interest rate scenarios tested through the valuation process and had no material impact on net earnings. The net change in interest rates for the quarter and year-to-date did not have a material impact on Great-West Life's MCCSR ratio.

In order to mitigate the Company's exposure to interest rate fluctuations, the Company follows disciplined processes for matching asset and liability cash flows. As a result, the impact of changes in fair values of bonds backing insurance contract liabilities recorded through profit or loss is mostly offset by a corresponding change in the insurance 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 regions where the Company operates, average equity market levels in the fourth quarter of 2016 and year-to-date were mostly up compared to the same periods in 2015 and ended the quarter at higher market levels compared to September 30, 2016. Relative to the Company's expectation, the change in average market levels and market volatility had a negligible impact on net earnings during the fourth quarter of 2016 and a negative impact of $10 million year-to-date in 2016 ($9 million positive impact in the fourth quarter of 2015 and $12 million negative impact year-to-date in 2015), 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, the impact on net earnings was negligible in the fourth quarter of 2016 and positive $4 million year-to-date in 2016 ($6 million positive impact in the fourth quarter of 2015 and $5 million positive impact year-to-date in 2015), related to seed money investments held in the Asset Management and Canada Corporate business units.

Comparing the fourth quarter of 2016 to the fourth quarter of 2015, average equity market levels were up by 11% in Canada (as measured by S&P TSX), 7% in the U.S. (as measured by S&P 500), 10% in the U.K. (as measured by FTSE 100); however, were down by 7% in broader Europe (as measured by Eurostoxx 50). The major equity indices finished the fourth quarter up 4% in Canada, 3% in the U.S., 4% in the U.K. and 10% in broader Europe, compared to September 30, 2016.

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.

The average currency translation rate for the fourth quarter of 2016 decreased for the U.S. dollar, the British pound and the euro compared to the fourth quarter of 2015. The overall impact of currency movement on the Company’s net earnings for the three month period ended December 31, 2016 was a decrease of $33 million ($50 million year-to-date) compared to translation rates a year ago.

From September 30, 2016 to December 31, 2016, the market rate at the end of the reporting period used to translate U.S. dollar assets and liabilities to the Canadian dollar increased, while the end-of-period market rates for euro and British pound assets and liabilities decreased. The movements in end-of-period market rates resulted in unrealized foreign exchange losses from the translation of foreign operations, including related hedging activities, of $50 million in-quarter ($1,449 million net unrealized losses 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, 2016			For the twelve months ended December 31, 2016		
	Impairment (charges) / recoveries	Changes in provisions for future credit losses in insurance contract liabilities	Total	Impairment (charges) / recoveries	Changes in provisions for future credit losses in insurance contract liabilities	Total
Canada	$ —	$ (2)	$ (2)	$ —	$ 1	$ 1
United States	(1)	1	—	1	(1)	—
Europe	5	3	8	(18)	12	(6)
Total	**$ 4**	**$ 2**	**$ 6**	**$ (17)**	**$ 12**	**$ (5)**

In the fourth quarter of 2016, the Company experienced net recoveries on impaired investments, including dispositions, which positively impacted net earnings by $4 million ($1 million net charge in the fourth quarter of 2015). Changes in credit ratings in the Company's bond portfolio resulted in a net decrease to provisions for future credit losses in insurance contract liabilities, which positively impacted net earnings by $2 million in the quarter ($25 million net charge in the fourth quarter of 2015).

For the twelve months ended December 31, 2016, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted net earnings by $17 million ($7 million net recovery in 2015), primarily driven by impairment charges on mortgage loans as a result of the insolvency of British Homes Stores (BHS), a U.K. retailer. Changes in credit ratings in the Company's bond portfolio resulted in a net decrease to provisions for future credit losses in insurance contract liabilities, which positively impacted net earnings by $12 million year-to-date ($55 million net charge in 2015).

ACTUARIAL ASSUMPTION CHANGES

During the fourth quarter of 2016, the Company updated a number of actuarial assumptions resulting in a positive net earnings impact of $115 million, compared to $97 million for the same quarter last year and $171 million for the previous quarter. In Europe, net earnings were positively impacted by $75 million, primarily due to the impact of updated economic, annuitant mortality and morbidity assumptions, partially offset by the impact of updated expense assumptions. In the U.S., net earnings were positively impacted by $20 million, primarily due to the impact of updated economic assumptions. In Canada, net earnings were positively impacted by $20 million due to the impact of a number of small assumption changes, including updated economic assumptions, modeling refinements and updated expense assumptions.

For the twelve months ended December 31, 2016, actuarial assumption changes resulted in a positive net earnings impact of $446 million, compared to $376 million for the same period in 2015.

PREMIUMS AND DEPOSITS AND SALES

Total premiums and deposits (a non-IFRS financial measure) include premiums on risk-based insurance and annuity products net of ceded reinsurance (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 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Canada					
Individual Insurance	**$ 1,543**	$ 1,298	$ 1,304	**$ 5,371**	$ 4,894
Wealth Management	**3,041**	2,716	2,804	**10,979**	10,832
Group Insurance	**2,097**	2,040	2,002	**8,311**	7,838
	6,681	6,054	6,110	**24,661**	23,564
United States					
Financial Services	**3,525**	3,575	5,087	**14,156**	13,798
Asset Management	**11,119**	11,341	10,869	**45,471**	39,850
	14,644	14,916	15,956	**59,627**	53,648
Europe					
Insurance & Annuities	**4,984**	5,325	4,497	**22,276**	22,127
Reinsurance	**3,730**	2,967	1,559	**10,902**	5,636
	8,714	8,292	6,056	**33,178**	27,763
Total premiums and deposits	**$ 30,039**	$ 29,262	$ 28,122	**$ 117,466**	$ 104,975

Sales

	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Canada	**$ 3,871**	$ 3,117	$ 3,492	**$ 12,933**	$ 12,635
United States	**18,384**	23,011	31,630	**98,218**	95,715
Europe - Insurance & Annuities	**4,410**	4,645	3,917	**19,179**	19,485
Total sales	**$ 26,665**	$ 30,773	$ 39,039	**$ 130,330**	$ 127,835

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 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Investment income earned (net of investment properties expenses)	**$ 1,522**	$ 1,480	$ 1,623	**$ 6,229**	$ 6,168
Allowances for credit losses on loans and receivables	**(13)**	1	(1)	**(35)**	—
Net realized gains	**25**	41	78	**165**	213
Regular investment income	**1,534**	1,522	1,700	**6,359**	6,381
Investment expenses	**(27)**	(26)	(30)	**(107)**	(110)
Regular net investment income	**1,507**	1,496	1,670	**6,252**	6,271
Changes in fair value through profit or loss	**(3,943)**	2,307	(844)	**3,903**	(2,010)
Net investment income	**$ (2,436)**	$ 3,803	$ 826	**$ 10,155**	$ 4,261

Net investment income in the fourth quarter of 2016, which includes changes in fair value through profit or loss, decreased by $3,262 million compared to the same quarter last year. The changes in fair value in the fourth quarter of 2016 were a decrease of $3,943 million compared to a decrease of $844 million for the fourth quarter of 2015. In the fourth quarter of 2016, the decrease was primarily due to an increase in bond yields across all geographies. In the fourth quarter of 2015, the decrease was primarily due to an increase in U.K. and U.S. bond yields.

Regular net investment income in the fourth quarter of 2016, which excludes changes in fair value through profit or loss, decreased by $163 million compared to the fourth quarter of 2015. The decrease was primarily due to the impact of currency movement as the Canadian dollar strengthened against the British pound, as well as lower net realized gains. Net realized gains include gains on available-for-sale securities of $14 million for the fourth quarter of 2016 compared to $4 million for the same quarter last year.

For the twelve months ended December 31, 2016, net investment income increased by $5,894 million compared to the same period last year. The changes in fair value for the twelve month period in 2016 were an increase of $3,903 million compared to a decrease of $2,010 million during the same period in 2015. The changes in fair value were primarily due to a decline in U.K. bond yields and an increase in Canadian equity markets during 2016, compared to an increase in U.K. and U.S. bond yields and a decline in Canadian equity markets during 2015.

Regular net investment income for the twelve months ended December 31, 2016 decreased by $19 million compared to the same period last year. The decrease was primarily due to the impact of currency movement as the Canadian dollar strengthened against the British pound, as well as lower net realized gains, partially offset by the impact of the U.S. dollar strengthening against the Canadian dollar. Net realized gains include gains on available-for-sale securities of $84 million for the twelve months ended December 31, 2016, compared to $106 million for the same period last year.

Net investment income in the fourth quarter of 2016 decreased by $6,239 million compared to the previous quarter, primarily due to net decreases in fair values of $3,943 million in the fourth quarter of 2016 compared to net increases in fair values of $2,307 million in the previous quarter. The net decrease in fair values during the fourth quarter was primarily due to an increase in bond yields, while the net increase in fair values during the previous quarter was primarily due to a decrease in 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 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Canada					
Segregated funds, mutual funds and other	**$ 345**	$ 338	$ 328	**$ 1,329**	$ 1,302
ASO contracts	**41**	39	41	**165**	157
	386	377	369	**1,494**	1,459
United States					
Segregated funds, mutual funds and other	**619**	566	637	**2,311**	2,378
Europe					
Segregated funds, mutual funds and other	**340**	328	327	**1,296**	1,221
Total fee and other income	**$ 1,345**	$ 1,271	$ 1,333	**$ 5,101**	$ 5,058

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 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Canada	**$ 1,444**	$ 3,485	$ 2,799	**$ 11,862**	$ 9,991
United States	**387**	1,776	1,084	**6,271**	4,138
Europe	**2,542**	5,328	1,649	**16,542**	8,713
Total	**$ 4,373**	$ 10,589	$ 5,532	**$ 34,675**	$ 22,842

Amounts paid or credited to policyholders include life and health claims, policy surrenders, maturities, annuity payments, segregated fund guarantee payments, policyholder dividends, experience refund payments and changes in insurance and investment contract liabilities. The changes in contract liabilities include the impact of changes in the 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, segregated funds or mutual funds.

For the three months ended December 31, 2016, consolidated amounts paid or credited to policyholders were $4.4 billion, including $7.9 billion of policyholder benefit payments and a $3.5 billion decrease in contract liabilities. The decrease of $1.2 billion from the same period in 2015 consisted of a $3.2 billion decrease in changes in contract liabilities and a $2.0 billion increase in benefit payments. The decrease in changes 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 new and restructured reinsurance treaties, partially offset by the impact of currency movement.

For the twelve months ended December 31, 2016, consolidated amounts paid or credited to policyholders were $34.7 billion, including $27.7 billion of policyholder benefit payments and a $7.0 billion increase in contract liabilities. The increase of $11.8 billion from the same period in 2015 consisted of a $6.1 billion increase in changes in contract liabilities and a $5.7 billion increase in benefit payments. The increase in changes 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, partially offset by the impact of the acquisition of The Equitable Life Assurance Society's (Equitable Life) annuity business, which increased contract liabilities in the first quarter of 2015. The increase in benefit payments was primarily due to new and restructured reinsurance treaties.

Compared to the previous quarter, consolidated amounts paid or credited to policyholders decreased by $6.2 billion. The decrease consisted of a $6.7 billion decrease in changes 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 $0.5 billion increase in benefit payments, primarily due to new reinsurance treaties, moderated by the impact of lower business volumes.

OTHER BENEFITS AND EXPENSES

Other benefits and expenses	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Commissions	**$ 853**	$ 584	$ 584	**$ 2,602**	$ 2,218
Operating and administrative expenses	**1,250**	1,180	1,175	**4,799**	4,466
Premium taxes	**112**	109	92	**411**	339
Financing charges	**75**	74	73	**302**	303
Amortization of finite life intangible assets	**44**	43	37	**177**	146
Restructuring and acquisition expenses	**35**	19	7	**63**	35
Total	**$ 2,369**	$ 2,009	$ 1,968	**$ 8,354**	$ 7,507

Other benefits and expenses for the fourth quarter of 2016 of $2,369 million increased by $401 million compared to the fourth quarter of 2015, primarily due to higher commissions, driven by higher sales in Canada, as well as an increase in operating and administrative expenses related to increased business volumes and strategic initiatives.

For the twelve months ended December 31, 2016, other benefits and expenses increased by $847 million to $8,354 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results as well as higher premium taxes.

Other benefits and expenses for the fourth quarter of 2016 increased by $360 million compared to the previous quarter, primarily due to higher commissions, driven by higher sales in Canada, and higher operating and administrative expenses related to increased business volumes and strategic initiatives.

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 2016, the Company had an effective income tax rate of 18%, up from 8% in the fourth quarter of 2015. The increase in the effective income tax rate for the fourth quarter of 2016 was primarily due to changes in certain tax estimates, which included the positive impact of a true-up of US$27 million in the Asset Management business unit of the U.S. segment in 2015 that did not recur in 2016.

The Company had an effective income tax rate of 12% for the twelve months ended December 31, 2016 compared to 13% for the same period last year. The decrease in the Company's effective income tax rate was primarily due to one-time items that arose in the first quarter of 2016 due to elections and settlements with tax authorities.

The fourth quarter effective income tax rate of 18% was higher than the third quarter rate of 13%. The increase in the effective income tax rate was primarily due to changes in certain tax estimates.

CONSOLIDATED FINANCIAL POSITION

ASSETS

Assets under administration

	December 31, 2016			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	$ 70,311	$ 44,904	$ 47,940	$ 163,155
Goodwill and intangible assets	5,133	2,388	2,428	9,949
Other assets	3,171	4,537	18,697	26,405
Segregated funds net assets	74,909	35,414	90,080	200,403
Total assets	153,524	87,243	159,145	399,912
Proprietary mutual funds and institutional net assets	5,852	219,699	33,664	259,215
Total assets under management	159,376	306,942	192,809	659,127
Other assets under administration	15,911	534,428	38,952	589,291
Total assets under administration	$ 175,287	$ 841,370	$ 231,761	$ 1,248,418

	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

Total assets under administration at December 31, 2016 increased by $35.9 billion to $1.2 trillion compared to December 31, 2015, primarily due to the impact of positive market movement and new business growth, mostly offset by the 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, 2016				
	Canada	**United States**	**Europe**	**Total**	
Bonds					
Government & related	**$ 23,580**	**$ 8,384**	**$ 18,905**	**$ 50,869**	**31%**
Corporate & other	**21,138**	**24,589**	**20,177**	**65,904**	**41**
Sub-total bonds	**44,718**	**32,973**	**39,082**	**116,773**	**72**
Mortgages	**12,892**	**5,169**	**3,590**	**21,651**	**13**
Stocks	**7,903**	**160**	**602**	**8,665**	**5**
Investment properties	**1,574**	**5**	**2,761**	**4,340**	**3**
Sub-total portfolio investments	**67,087**	**38,307**	**46,035**	**151,429**	**93**
Cash and cash equivalents	**615**	**852**	**1,792**	**3,259**	**2**
Loans to policyholders	**2,609**	**5,745**	**113**	**8,467**	**5**
Total invested assets	**$ 70,311**	**$ 44,904**	**$ 47,940**	**$ 163,155**	**100%**

	December 31, 2015				
	Canada	United States	Europe	Total	
Bonds					
Government & related[(1)]	$ 21,732	$ 9,413	$ 19,304	$ 50,449	31%
Corporate & other[(1)]	21,388	22,638	20,468	64,494	40
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%

(1) Comparative figures have been reclassified for presentation purposes.

At December 31, 2016, total invested assets were $163.2 billion, an increase of $1.6 billion from December 31, 2015. The increase in invested assets was primarily due to regular business activity, including transferring portfolio investments previously reported as funds held by ceding insurers, as described in note 6 to the Company's December 31, 2016 annual consolidated financial statements. The increase was mostly offset by the impact of currency movement, as the Canadian dollar strengthened against the British pound, U.S. dollar and euro. 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 $116.8 billion or 72% of invested assets at December 31, 2016 and $114.9 billion or 71% at December 31, 2015. During the second quarter of 2016, the rating of U.K. government and government related bonds changed from AAA to AA as a direct result of rating agency activity in response to the U.K. vote to leave the EU, resulting in a shift between rating categories. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 82% rated A or higher.

Bond portfolio quality

	December 31, 2016		December 31, 2015	
AAA	**$ 27,762**	**24 %**	$ 36,434	32%
AA	**29,816**	**26**	20,364	18
A	**37,787**	**32**	35,623	31
BBB	**20,116**	**17**	20,984	18
BB or lower	**1,292**	**1**	1,538	1
Total	**$ 116,773**	**100 %**	$ 114,943	100%

At December 31, 2016, non-investment grade bonds were $1.3 billion or 1.1% of the bond portfolio, which was comparable to $1.5 billion or 1.3% of the bond portfolio at December 31, 2015.

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, 2016				December 31, 2015	
Mortgage loans by type	**Insured**	**Non-insured**	**Total**		Total	
Single family residential	**$ 706**	**$ 1,369**	**$ 2,075**	**9%**	$ 1,962	9%
Multi-family residential	**2,946**	**3,041**	**5,987**	**28**	5,821	26
Commercial	**260**	**13,329**	**13,589**	**63**	14,238	65
Total	**$ 3,912**	**$ 17,739**	**$ 21,651**	**100%**	$ 22,021	100%

The total mortgage portfolio was $21.7 billion or 13% of invested assets at December 31, 2016, compared to $22.0 billion or 14% of invested assets at December 31, 2015. Total insured loans were $3.9 billion or 18% of the mortgage portfolio.

Commercial mortgages

	December 31, 2016				December 31, 2015			
	Canada	**U.S.**	**Europe**	**Total**	Canada	U.S.	Europe	Total
Retail & shopping centres	**$ 3,353**	**$ 633**	**$ 1,263**	**$ 5,249**	$ 3,367	$ 731	$ 1,692	$ 5,790
Office buildings	**1,845**	**657**	**729**	**3,231**	1,703	621	946	3,270
Industrial	**1,570**	**1,534**	**842**	**3,946**	1,595	1,375	977	3,947
Other	**340**	**450**	**373**	**1,163**	390	435	406	1,231
Total	**$ 7,108**	**$ 3,274**	**$ 3,207**	**$ 13,589**	$ 7,055	$ 3,162	$ 4,021	$ 14,238

Single family residential mortgages

Region	December 31, 2016		December 31, 2015	
Ontario	**$ 1,005**	**49%**	$ 946	49%
Quebec	**436**	**21**	405	21
Alberta	**140**	**7**	136	7
British Columbia	**127**	**6**	123	6
Newfoundland	**113**	**5**	105	5
Saskatchewan	**86**	**4**	84	4
Nova Scotia	**65**	**3**	62	3
Manitoba	**53**	**3**	55	3
New Brunswick	**46**	**2**	42	2
Other	**4**	**—**	4	—
Total	**$ 2,075**	**100%**	$ 1,962	100%

During the twelve months ended December 31, 2016, single family mortgage originations, including renewals, were $763 million, of which 26% 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 fulfil 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 of 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 was 22 years as at December 31, 2016.

Equity portfolio

	December 31, 2016		December 31, 2015	
Equity portfolio by type				
Publicly traded stocks	**$ 7,988**	**62%**	$ 7,054	54%
Privately held equities	**677**	**5**	819	6
Sub-total	**8,665**	**67**	7,873	60
Investment properties	**4,340**	**33**	5,237	40
Total	**$ 13,005**	**100%**	$ 13,110	100%

Investment properties

	December 31, 2016				December 31, 2015			
	Canada	**U.S.**	**Europe**	**Total**	Canada	U.S.	Europe	Total
Office buildings	**$ 702**	**$ —**	**$ 625**	**$ 1,327**	$ 955	$ —	$ 730	$ 1,685
Industrial	**293**	**—**	**596**	**889**	288	—	762	1,050
Retail	**207**	**—**	**1,114**	**1,321**	204	—	1,417	1,621
Other	**372**	**5**	**426**	**803**	341	5	535	881
Total	**$ 1,574**	**$ 5**	**$ 2,761**	**$ 4,340**	$ 1,788	$ 5	$ 3,444	$ 5,237

Equity portfolio – The total equity portfolio was $13.0 billion or 8% of invested assets at December 31, 2016 compared to $13.1 billion or 8% of invested assets at December 31, 2015. The equity portfolio consists of publicly traded stocks, privately held equities and investment properties. The increase in stocks of $0.8 billion was primarily due to an increase in Canadian equity markets. The decrease in investment properties of $0.9 billion was mainly a result of the strengthening of the Canadian dollar against the British pound and net dispositions of properties, primarily in Canada.

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, 2016				December 31, 2015			
	Gross amount	**Impairment recovery**	**Impairment provision**	**Carrying amount**	Gross amount	Impairment recovery	Impairment provision	Carrying amount
Fair value through profit or loss	**$ 231**	**$ 53**	**$ (1)**	**$ 283**	$ 287	$ 69	$ (1)	$ 355
Available-for-sale	**8**	**3**	**(1)**	**10**	12	2	(3)	11
Loans and receivables	**122**	**—**	**(43)**	**79**	50	—	(20)	30
Total	**$ 361**	**$ 56**	**$ (45)**	**$ 372**	$ 349	$ 71	$ (24)	$ 396

The gross amount of impaired investments totaled $361 million or 0.2% of portfolio investments, including funds held by ceding insurers, at December 31, 2016 compared with $349 million or 0.2% at December 31, 2015, a net increase of $12 million. The increase in impaired investments was primarily due to new impairments, partially offset by dispositions and repayments, as well as the strengthening of the Canadian dollar against the British pound and U.S. dollar.

The impairment recovery at December 31, 2016 was $56 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, 2016 was $45 million, compared to $24 million at December 31, 2015. The increase was primarily due to the impairment of BHS mortgage loans. While the fair values have improved on certain impaired assets, these assets remain impaired based on other impairment factors as described in the "Summary of Critical Accounting Estimates" section of this document and in note 2 of the Company's December 31, 2016 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, 2016, the total actuarial provision for future credit losses in insurance contract liabilities was $2,946 million compared to $3,558 million at December 31, 2015, a decrease of $612 million, primarily due to the impact of assumption changes and currency movement, partially offset by normal business activity.

The aggregate of impairment provisions of $45 million ($24 million at December 31, 2015) and actuarial provisions for future credit losses in insurance contract liabilities of $2,946 million ($3,558 million at December 31, 2015) represents 2.0% of bond and mortgage assets, including funds held by ceding insurers, at December 31, 2016 (2.4% at December 31, 2015).

Energy Sector

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

	December 31, 2016				December 31, 2015
	Canada	**U.S.**	**Europe**	**Total**	Total
Bonds[2][3]	**$ 1,618**	**$ 2,102**	**$ 1,336**	**$ 5,056**	$ 5,216
Mortgages[4]	**2,093**	**392**	**44**	**2,529**	2,560
Investment properties	**288**	**—**	**—**	**288**	300
Total	**$ 3,999**	**$ 2,494**	**$ 1,380**	**$ 7,873**	$ 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, 2016 annual consolidated financial statements.
(2) Amortized cost of these bonds is $4,823 million at December 31, 2016 and $5,177 million at December 31, 2015.
(3) Includes certain funds held by ceding insurers with a carrying value of $279 million and an amortized cost of $259 million at December 31, 2016.
(4) Includes $625 million of insured mortgages at December 31, 2016 and $613 million at December 31, 2015.

At December 31, 2016, the Company's holdings of energy sector related investments, including funds held by ceding insurers, were $7.9 billion ($8.1 billion at December 31, 2015). This included direct exposure of bond holdings of $5.1 billion ($5.2 billion at December 31, 2015), or 2.9% of invested assets including funds held by ceding insurers, and indirect exposure of commercial mortgages and investment properties of $2.8 billion ($2.9 billion at December 31, 2015), or 1.7% of invested assets including funds held by ceding insurers.

At December 31, 2016, the Company's energy sector related bond holdings 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 addition, the Company's indirect exposure of energy sector related commercial mortgages and investment properties were concentrated in certain geographic regions where the economy is more dependent upon the energy sector and were well diversified across property type - Multi-family (31%), Industrial/Other (28%), Office (23%) and Retail (18%). Approximately 80% of the portfolio was concentrated in the province of Alberta, with the remainder primarily in the state of Texas. The weighted average loan-to-value ratio of the commercial mortgages was 59% at December 31, 2016.

In December 2016, Moody’s Investors Service (Moody’s) and Standard & Poor’s Ratings Services revised their forecasts for crude oil upward. 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 Stable for Integrated and Positive for Independent while the outlook for Oilfield Services remains Negative. Moody’s has also maintained its Stable outlook for Midstream and Master Limited Partnerships but has lowered its Refining sub-sector outlook to Negative. Increases to provisions for future credit losses as a result of ratings downgrades specific to the energy sector were modest and impairments were minimal in 2016. Recovering crude oil prices through most of the year has resulted in the general tightening of spreads on bonds held by the Company.

United Kingdom Property Related Exposures

Holdings of United Kingdom Mortgages and Investment Properties

	December 31, 2016						December 31, 2015
	Multi-Family Residential	**Retail & shopping centres**	**Office buildings**	**Industrial**	**Other**	**Total**	Total
Mortgages	**$ 343**	**$ 1,434**	**$ 700**	**$ 923**	**$ 372**	**$ 3,772**	$ 4,520
Investment properties	**—**	**1,094**	**623**	**596**	**416**	**2,729**	3,411
Total	**$ 343**	**$ 2,528**	**$ 1,323**	**$ 1,519**	**$ 788**	**$ 6,501**	$ 7,931

At December 31, 2016, the Company's holdings of property related investments in the U.K. were $6.5 billion ($7.9 billion at December 31, 2015) or 3.8% of invested assets including funds held by ceding insurers. The $1.4 billion decrease from December 31, 2015 was primarily due to the impact of currency movement, as the Canadian dollar strengthened against the British pound. Holdings in Central London were $1.9 billion ($2.1 billion at December 31, 2015) or 1.1% of invested assets including funds held by ceding insurers, while holdings in other regions of the U.K. were $4.6 billion ($5.8 billion at December 31, 2015) or 2.7% of invested assets including funds held by ceding insurers. These holdings were well diversified across property type - Retail (39%), Industrial/Other (36%), Office (20%) and Multi-family (5%). The weighted average loan-to-value ratio of the mortgages was 54% and the weighted average debt-service coverage ratio was 2.1 at December 31, 2016. At December 31, 2016, the weighted average mortgage and property lease term was 14 years.

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 2016. The Company’s derivative transactions are generally governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements, which provide for legally enforceable set-off and close-out netting of exposure to specific counterparties in the event of an early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from a counterparty against payables to the same counterparty, in the same legal entity, arising out of all included transactions. The Company’s ISDA Master Agreements may include Credit Support Annex provisions, which require both the pledging and accepting of collateral in connection with its derivative transactions.

At December 31, 2016, total financial collateral, including initial margin and overcollateralization, received on derivative assets was $159 million ($107 million at December 31, 2015) and pledged on derivative liabilities was $475 million ($671 million at December 31, 2015). Collateral received on derivative assets increased and collateral pledged on derivative liabilities decreased in 2016, primarily driven by the impact of the strengthening Canadian dollar against the U.S. dollar, British pound and euro on cross-currency swap fair values.

During the twelve month period ended December 31, 2016, the outstanding notional amount of derivative contracts increased by $0.5 billion to $17.2 billion, primarily as a result of regular hedging activities, partially offset by the impact of currency movement for foreign denominated derivatives as the Canadian dollar strengthened against the British pound, euro and U.S. dollar.

The Company’s exposure to derivative counterparty credit risk, which reflects the current fair value of those instruments in a gain position, increased to $528 million at December 31, 2016 from $461 million at December 31, 2015. Market values increased on cross-currency swaps as the end-of-period rates for the Canadian dollar strengthened against the U.S. dollar, British pound and euro.

Goodwill and intangible assets

Goodwill and intangible assets

	December 31	
	2016	2015
Goodwill	**$ 5,977**	$ 5,913
Indefinite life intangible assets	**3,030**	3,115
Finite life intangible assets	**942**	921
Total	**$ 9,949**	$ 9,949

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 of $9,949 million at December 31, 2016 were comparable to December 31, 2015. Goodwill increased by $64 million to $5,977 million driven by the acquisitions of Aviva Health Insurance Limited (Aviva Health) and GloHealth Financial Services Limited (GloHealth) by Irish Life, partially offset by the impact of currency movement. Indefinite and finite life intangible assets decreased by $64 million during 2016, driven by the impact of currency movement, partially offset by $35 million of additions to customer contract related finite life intangible assets relating to the acquisitions of Aviva Health and GloHealth, and net additions to computer software.

IFRS principles require the Company to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to perform an impairment test on goodwill and indefinite life intangible assets at least annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. Finite life intangible assets are reviewed annually to determine if there are indications of impairment and assess whether the amortization periods and methods are appropriate. In the fourth quarter of 2016, the Company conducted its annual impairment testing of goodwill and intangible assets based on September 30, 2016 asset balances. It was determined that the recoverable amounts of cash generating unit groupings were in excess of their carrying values and there was no evidence of impairment. The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use. In addition, there were no impairment charges in 2016 to finite life intangible assets.

Refer to note 9 in the Company's December 31, 2016 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	
	2016	2015
Funds held by ceding insurers	**$ 10,781**	$ 15,512
Reinsurance assets	**5,627**	5,131
Premiums in course of collection, accounts and interest receivable	**4,311**	3,553
Other assets	**2,263**	2,643
Deferred tax assets	**1,845**	1,891
Owner occupied properties	**649**	653
Derivative financial instruments	**528**	461
Fixed assets	**304**	298
Current income taxes	**97**	69
Total	**$ 26,405**	$ 30,211

Total other general fund assets at December 31, 2016 were $26.4 billion, a decrease of $3.8 billion from December 31, 2015. The decrease was primarily due to a $4.7 billion decrease in funds held by ceding insurers, partially offset by an increase of $0.8 billion in premiums in course of collection, accounts and interest receivable and an increase of $0.5 billion in reinsurance assets. The decrease in funds held by ceding insurers was primarily due to two transactions that occurred during 2016, which resulted in the related assets now being recorded in Portfolio Investments, as described in note 6 to the Company's December 31, 2016 annual consolidated financial statements, as well as the impact of currency movement as the Canadian dollar strengthened against the British pound.

Other assets comprise several items including prepaid expenses and accounts receivable. Refer to note 11 in the Company's December 31, 2016 annual consolidated financial statements for a breakdown of other assets.

Investments on account of segregated fund policyholders

Segregated funds

	December 31		
	2016	2015	2014
Stock and units in unit trusts	**$ 81,033**	$ 80,829	$ 68,911
Mutual funds	**51,726**	50,101	46,707
Bonds	**41,619**	42,160	37,912
Investment properties	**11,019**	10,839	9,533
Cash and other	**10,837**	10,279	8,383
Mortgage loans	**2,622**	2,596	2,508
Sub-total	**$ 198,856**	$ 196,804	$ 173,954
Non-controlling mutual funds interest	**1,547**	1,390	1,012
Total	**$ 200,403**	$ 198,194	$ 174,966
Year-over-year growth	**1%**	13%	9%

Investments on account of segregated fund policyholders, which are measured at fair value, increased by $2.2 billion to $200.4 billion at December 31, 2016 compared to December 31, 2015, primarily due to the combined impact of market value gains and investment income of $13.0 billion, mostly offset by the impact of currency movement of $10.6 billion and net withdrawals of $0.5 billion.

Proprietary mutual funds

Proprietary mutual funds and institutional net assets

	December 31	
	2016	2015
Mutual funds		
Blend equity	**$ 31,328**	$ 40,070
Growth equity	**13,252**	14,468
Equity value	**23,163**	22,798
Fixed-income	**33,999**	34,384
Money market	**164**	123
Great-West Financial Funds[1]	**15,856**	13,480
Sub-total	**117,762**	125,323
Institutional accounts		
Equity	**84,257**	77,236
Fixed-income	**48,700**	44,458
Other	**8,496**	5,463
Sub-total	**141,453**	127,157
Total proprietary mutual funds and institutional accounts	**$ 259,215**	$ 252,480

(1) At December 31, 2016, mutual funds exclude $10.9 billion of Putnam managed funds ($9.1 billion at December 31, 2015), which are included in the categories above.

At December 31, 2016, total proprietary mutual funds and institutional accounts include $219.7 billion at Putnam and Great-West Financial, $5.8 billion at Quadrus and $32.9 billion at Irish Life. Proprietary mutual funds and institutional accounts under management increased by $6.7 billion, primarily as a result of the positive impact of currency and market movements.

LIABILITIES

Total liabilities

	December 31	
	2016	2015[1]
Insurance and investment contract liabilities	**$ 157,949**	$ 160,745
Other general fund liabilities	**16,552**	15,736
Investment and insurance contracts on account of segregated fund policyholders	**200,403**	198,194
Total	**$ 374,904**	$ 374,675

(1) Comparative figures have been reclassified as described in note 33 to the Company's December 31, 2016 consolidated financial statements.

Total liabilities increased by $0.2 billion to $374.9 billion at December 31, 2016 from December 31, 2015.

Insurance and investment contract liabilities decreased by $2.8 billion. The decrease was primarily due to the strengthening of the Canadian dollar against the British pound, euro and U.S. dollar, partially offset by the impact of new business and fair value adjustments. Investment and insurance contracts on account of segregated fund policyholders increased by $2.2 billion, primarily due to the combined impact of market value gains and investment income of $13.0 billion, mostly offset by the impact of currency movement of $10.6 billion and net withdrawals of $0.5 billion.

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

		Non-Participating			
	Participating Account	**Canada**	**United States**	**Europe**	**Total**
December 31, 2016					
Bonds	**$ 22,896**	**$ 17,464**	**$ 23,820**	**$ 31,550**	**$ 95,730**
Mortgage loans	**8,810**	**3,699**	**4,005**	**3,557**	**20,071**
Stocks	**4,951**	**1,979**	**—**	**236**	**7,166**
Investment properties	**1,410**	**13**	**—**	**2,679**	**4,102**
Other assets[1]	**9,127**	**5,970**	**1,256**	**14,527**	**30,880**
Total assets	**$ 47,194**	**$ 29,125**	**$ 29,081**	**$ 52,549**	**$ 157,949**
Total insurance and investment contract liabilities	**$ 47,194**	**$ 29,125**	**$ 29,081**	**$ 52,549**	**$ 157,949**
December 31, 2015					
Bonds	$ 22,306	$ 18,848	$ 23,023	$ 31,982	$ 96,159
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	19,181	33,250
Total assets[2]	$ 45,869	$ 28,162	$ 27,625	$ 59,089	$ 160,745
Total insurance and investment contract liabilities[2]	$ 45,869	$ 28,162	$ 27,625	$ 59,089	$ 160,745

(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.
(2) Comparative figures have been reclassified as described in Note 33 to the Company's December 31, 2016 consolidated financial statements.

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	
	2016	2015[1]
Debentures and other debt instruments	**$ 5,980**	$ 5,395
Other liabilities	**3,836**	3,367
Accounts payable	**2,049**	1,755
Derivative financial instruments	**2,012**	2,624
Deferred tax liabilities	**1,645**	1,586
Current income taxes	**549**	492
Funds held under reinsurance contracts	**320**	356
Capital trust securities	**161**	161
Total	**$ 16,552**	$ 15,736

(1) Comparative figures have been reclassified as described in note 33 to the Company's December 31, 2016 consolidated financial statements.

Total other general fund liabilities at December 31, 2016 were $16.6 billion, an increase of $0.8 billion from December 31, 2015, primarily due to an increase in accounts payable and other liabilities of $0.8 billion and increased debentures and other debt instruments of $0.6 billion, partially offset by a decrease in derivative financial instruments of $0.6 billion. Other liabilities of $3.8 billion include pension and other post-employment benefits, deferred income reserve, bank overdraft and other liability balances. Refer to note 17 in the Company’s December 31, 2016 annual consolidated financial statements for a breakdown of the other liabilities balance and note 15 in the Company’s December 31, 2016 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. 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 its GMWB hedging program. In particular, the GMWB product has been designed with specific regard to limiting policyholder anti-selection, and the array of investment funds available to policyholders has been determined with a view to minimizing underlying basis risk.

Certain GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2016, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was $3,917 million ($3,488 million at December 31, 2015).

Segregated fund and variable annuity guarantee exposure

		December 31, 2016			
		Investment deficiency by benefit type			
	Market Value	**Income**	**Maturity**	**Death**	**Total**[1]
Canada	$ 31,494	$ —	$ 16	$ 50	$ 50
United States	12,412	9	—	43	52
Europe					
Insurance & Annuities	8,745	7	—	377	377
Reinsurance[2]	1,169	391	—	20	411
Total Europe	9,914	398	—	397	788
Total	**$ 53,820**	**$ 407**	**$ 16**	**$ 490**	**$ 890**

(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, 2016.

(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, 2016. 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 ($4 million for the fourth quarter of 2015) and $21 million year-to-date ($15 million year-to-date for 2015), 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, 2016, debentures and other debt instruments increased by $585 million to $5,980 million compared to December 31, 2015, primarily due to the issuance of a €500 million 10-year senior bond. The bond pays an annual coupon of 1.75% and was priced at 99.718% of par for a yield to maturity of 1.781%. The bond is rated A+ by Standard & Poor's Rating Services and is listed on the Irish Stock Exchange. This was Lifeco's second debt issuance in the euro market. On February 8, 2017, Irish Life Assurance Plc, a subsidiary of the Company, redeemed its 5.25% €200 million subordinated debenture notes at their principal amount together with accrued interest.

During the second quarter of 2016, Great-West Life & Annuity Insurance Capital, LP II, a subsidiary, elected to not call its US$300 million 7.153% junior subordinated debentures with a first par call date of May 16, 2016 and a final maturity date of May 16, 2046. Beginning May 16, 2016, the debentures pay a floating rate of interest set at 3-month LIBOR plus 2.538%. Great-West Financial also entered into an external 30-year interest rate swap transaction whereby it will pay a fixed 4.68% rate of interest and will receive a floating 3-month LIBOR plus 2.538% rate of interest on the notional principal amount.

Refer to note 15 in the Company's December 31, 2016 annual consolidated financial statements for further details of the Company's debentures and other debt instruments.

CAPITAL TRUST SECURITIES

At December 31, 2016, 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, 2016 were CLiCS – Series B with a fair value of $50 million and principal value of $37 million (fair value of $50 million at December 31, 2015).

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, 2016 was $9,644 million, which comprises $7,130 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, 2016, the Company had 986,398,335 common shares outstanding with a stated value of $7,130 million compared to 993,350,331 common shares with a stated value of $7,156 million at December 31, 2015.

The Company commenced a normal course issuer bid (NCIB) on January 8, 2016 for one year 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. The NCIB was amended effective February 23, 2016 to purchase up to 20,000,000 common shares.

On June 17, 2016, the Company announced its intention to purchase for cancellation, up to 5,809,000 of its common shares pursuant to private agreements between the Company and several arm's length third-party sellers. As of December 31, 2016, the Company had entered into private agreements for the repurchase of 1,600,000 of its common shares. Subsequent to December 31, 2016, the Company did not purchase any additional common shares prior to the expiration of this arrangement on January 7, 2017.

During the twelve months ended December 31, 2016, the Company repurchased and subsequently cancelled 7,967,881 common shares (2015 - 6,279,856) at an average cost per share of $33.54 (2015 - $35.17) under its NCIB, which included shares repurchased under private agreements.

Subsequent to December 31, 2016, 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 announced a normal course issuer bid commencing January 9, 2017 and terminating January 8, 2018 to purchase for cancellation up to but not more than 20,000,000 of its common shares at market prices.

Preferred shares

At December 31, 2016, 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)	$193,500,800	$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[2]	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) The Series N, Non-Cumulative 5-Year Rate Reset First Preferred Shares carry an annual fixed dividend rate of 2.176% to but excluding December 31, 2020 and are redeemable at the option of the Company on December 31, 2020 and on December 31 every five years thereafter for $25.00 per share plus 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 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.

(2) The Series O, Non-Cumulative Floating Rate First Preferred Shares carry a floating dividend rate equal to the relevant Government of Canada Treasury Bill rate plus 1.30% and 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, plus in each case 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 First Preferred Shares do not allow the holder to convert to common shares of the Company or to otherwise cause the Company to redeem the shares. Preferred shares issued by the Company are commonly referred to as perpetual and represent a form of financing that does not have a fixed term.

NON-CONTROLLING INTERESTS

The Company's non-controlling interests include participating account surplus in subsidiaries and non-controlling interests in subsidiaries. Refer to note 18 in the Company's December 31, 2016 annual consolidated financial statements for further details of the Company's non-controlling interests.

Non-controlling interests	December 31	
	2016	2015[1]
Participating account surplus in subsidiaries:		
Great-West Life	**$ 610**	$ 607
London Life	**1,798**	1,780
Canada Life	**357**	222
Great-West Financial	**17**	17
	$ 2,782	$ 2,626
Non-controlling interests in subsidiaries	**$ 224**	$ 195

[1] Comparative figures have been reclassified as described in note 33 to the Company's December 31, 2016 consolidated financial statements.

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, 2016, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of $7.9 billion ($7.1 billion at December 31, 2015) and other liquid assets and marketable securities of $91.6 billion ($90.5 billion at December 31, 2015). Included in the cash, cash equivalents and short-term bonds at December 31, 2016 was $1.1 billion ($0.9 billion at December 31, 2015) 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 regulated entities based in Europe, the local solvency capital regime has changed to the Solvency II basis, effective January 1, 2016. In 2016, the Company effectively managed capital volatility under the new regulations. Transitional measures and other measures approved by the regulators for long-term guaranteed business act to reduce the impact of current market volatility on Solvency II regulatory capital.

CASH FLOWS

Cash flows	For the three months ended December 31		For the twelve months ended December 31	
	2016	2015	**2016**	2015
Cash flows relating to the following activities:				
Operations	**$ 1,389**	$ 1,063	**$ 6,254**	$ 5,123
Financing	**510**	(194)	**(1,045)**	(1,683)
Investment	**(1,689)**	(1,802)	**(4,565)**	(3,424)
	210	(933)	**644**	16
Effects of changes in exchange rates on cash and cash equivalents	**(11)**	33	**(198)**	299
Increase (decrease) in cash and cash equivalents in the period	**199**	(900)	**446**	315
Cash and cash equivalents, beginning of period	**3,060**	3,713	**2,813**	2,498
Cash and cash equivalents, end of period	**$ 3,259**	$ 2,813	**$ 3,259**	$ 2,813

The principal source of funds for the Company on a consolidated basis is cash provided by operating activities, including premium income, net investment income and fee income. These funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements. Cash flows related to financing activities include the issuance and repayment of capital instruments, and associated dividends and interest payments.

In the fourth quarter of 2016, cash and cash equivalents increased by $199 million from September 30, 2016. Cash flows provided by operations during the fourth quarter of 2016 were $1,389 million, an increase of $326 million compared to the fourth quarter of 2015. Cash flows provided by financing were $510 million, primarily due to the issuance of euro-denominated debt as well as an increase to a line of credit of a subsidiary of $166 million, partially offset by payments of dividends to the preferred and common shareholders of $371 million. For the three months ended December 31, 2016, cash flows were used by the Company to acquire an additional $1,689 million of investment assets.

For the twelve months ended December 31, 2016, cash and cash equivalents increased by $446 million from December 31, 2015. Cash flows provided by operations were $6,254 million, an increase of $1,131 million compared to the same period in 2015. Cash flows used in financing were $1,045 million, primarily used for payments of dividends to the preferred and common shareholders of $1,492 million, the purchase and cancellation of $267 million in common shares and a $31 million decrease in a line of credit of a subsidiary, partially offset by the issuance of euro-denominated debt. In the first quarter of 2016, the Company increased the quarterly dividend to common shareholders from $0.326 per common share to $0.346 per common share. For the twelve months ended December 31, 2016, cash flows were used by the Company to acquire an additional $4,565 million of investment assets.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations
At December 31, 2016

	Payments due by period						
	Total	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**	**Over 5 years**
1) Debentures and other debt instruments	$ 5,585	$ 284	$ 200	$ —	$ 500	$ —	$ 4,601
2) Operating leases							
- office	664	109	99	74	59	49	274
- equipment	17	6	6	3	1	1	—
3) Purchase obligations	283	108	53	62	42	15	3
4) Credit-related arrangements							
(a) Contractual commitments	1,172	1,084	88	—	—	—	—
(b) Letters of credit	see note 4(b) below						
5) Pension contributions	273	273	—	—	—	—	—
Total contractual obligations	**$ 7,994**	**$ 1,864**	**$ 446**	**$ 139**	**$ 602**	**$ 65**	**$ 4,878**

1) Refer to note 15 in the Company's December 31, 2016 annual consolidated financial statements. Excluded from debentures and other debt instruments are unamortized transaction costs.
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.
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, 2016.

   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 LOCs issued on the Company's behalf from approved banks in order to further secure the Company's obligations under certain reinsurance contracts.

   Great-West Life 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, 2016, Great-West Life subsidiaries have issued US$96 million to external parties.

   Great-West Life also has a LOC facility for US$375 million for use by Great-West Life and its subsidiaries. Under this facility, Canada Life has issued US$66 million to external parties.

   As well, certain London Reinsurance Group subsidiaries and London Life have provided LOCs totaling US$6 million to external parties.

   To internal parties
   GWL&A Financial Inc. has a US$1.2 billion LOC facility. As of December 31, 2016, US$1,167 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.

   Great-West Life & Annuity Insurance Company also has a US$70 million LOC facility in place. As of December 31, 2016, 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.

   Canada Life 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, 2016, US$500 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$627 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, 2016 was 240% (238% at December 31, 2015). London Life's MCCSR ratio at December 31, 2016 was 217% (226% at December 31, 2015). Canada Life's MCCSR ratio at December 31, 2016 was 275% (260% at December 31, 2015). The MCCSR ratio does not take into account any impact from $1.1 billion of liquidity at the Lifeco holding company level at December 31, 2016 ($0.9 billion at December 31, 2015).

The MCCSR ratio of 240% for Great-West Life includes 4 points for the impact of a new €200 million subordinated loan, relating to a portion of the proceeds from the €500 million bonds issued by Lifeco, which was downstreamed, during the fourth quarter of 2016. The related impact for Canada Life was 7 points and nil for London Life. This new debenture will replace an existing perpetual capital note at Irish Life Assurance Plc (ILA) that ILA announced it is redeeming on February 8, 2017. As a result of the redemption of these notes, the MCCSR ratio for Great-West Life and Canada Life will decrease in the first quarter of 2017. The net MCCSR impact of the new intercompany debenture in the fourth quarter of 2016, combined with the redemption in the first quarter of 2017 is nil.

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, 2016, the Risk Based Capital (RBC) ratio of Great-West Life & Annuity Insurance Company, Lifeco's regulated U.S. operating company, is estimated to be 455% of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Life & Annuity Insurance Company reports its RBC ratio annually to U.S. Insurance Regulators.

The Board of Directors reviews and approves an annual capital plan as well as capital transactions undertaken by management pursuant to the plan. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy, risk profile and business plans. The Company has established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. In addition to undertaking capital transactions, the Company uses and provides traditional and structured reinsurance to support capital and risk management.

OSFI Regulatory Capital Initiatives

On September 12, 2016, OSFI issued the Life Insurance Capital Adequacy Test (LICAT) guideline. Effective January 1, 2018, OSFI plans for the LICAT guideline to replace the MCCSR guideline. OSFI has stated that the LICAT guideline is not expected to increase the amount of capital in the industry compared to the current MCCSR guideline. Since OSFI developed the LICAT guideline to better align risk measures with the economic realities of the life insurance business, capital distribution and impact by risk and by company may change. OSFI continues to conduct assessments of the new guideline, which will help to inform the final calibration of the LICAT guideline.

The Company will continue ongoing dialogue with OSFI, the Canadian Institute of Actuaries, The Canadian Life and Health Insurance Association and other industry participants during the assessment period and subsequent implementation phase.

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.

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 2016**	Sept. 30 2016	Dec. 31 2015
Canada	**19.9 %**	19.0 %	20.2 %
U.S. Financial Services[2]	**10.6 %**	11.0 %	13.0 %
U.S. Asset Management (Putnam)[2]	**(2.9)%**	(0.3)%	1.4 %
Europe	**17.1 %**	16.9 %	16.8 %
Lifeco Corporate	**(5.2)%**	(3.6)%	(2.7)%
Total Lifeco Net Earnings Basis	**13.8 %**	13.8 %	14.7 %

(1) Return on Equity is the calculation of net earnings divided by the average common shareholders' equity over the trailing four quarters.
(2) U.S. Financial Services includes U.S. Corporate, excluding restructuring costs relating to Putnam of $20 million, which are included in U.S. Asset Management (Putnam).

The Company reported ROE of 13.8% at December 31, 2016 compared to 14.7% at December 31, 2015.

RATINGS

The Company's financial leverage ratio has been maintained at a level 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 2016, the credit ratings for Lifeco and its major operating subsidiaries were unchanged (set out in table below). The Company continued to receive strong ratings relative to its North American peer group resulting from its conservative risk profile, stable net earnings and consistent dividend track record. During the fourth quarter of 2016, Standard & Poor's Rating Services incorporated Irish Life as part of its group ratings. ILA is not part of the group ratings for Fitch Ratings.

Lifeco's operating companies are assigned a group rating from each rating agency. This group rating is predominantly supported by the Company's leading position in the Canadian insurance market and competitive positions in the U.S. and European markets. 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. There were no changes to the Company's group credit ratings in 2016.

Rating agency	Measurement	Lifeco	Great-West Life	London Life	Canada Life	Irish Life	Great-West Life & Annuity Insurance Company
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	AA
	Senior Debt	A					
	Subordinated 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
	Issuer Rating					A+	
	Senior Debt	A+					
	Subordinated Debt				AA-	A-	

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, a member of the Power Financial Corporation group of companies.

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] • Pre-eminent provider of individual disability and critical illness insurance with 27% market share of in-force premium[1]	***Individual Life Insurance*** • Term Life • Universal Life • Participating Life ***Living Benefits*** • Disability • Critical Illness	***Associated with:*** ***Great-West Life Distribution*** • 2,868 Great-West Life financial security advisors • 2,068 advisors associated with a number of intercorporate arrangements • 5,698 independent brokers ***London Life Distribution*** • 3,760 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors ***Canada Life Distribution*** • 7,737 independent brokers associated with 36 MGAs • 1,897 advisors associated with 14 national accounts • 3,509 Investors Group consultants who actively sell Canada Life products • 141 direct brokers and producer groups

(1) As at September 30, 2016

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, 90 Canada Life segregated funds to individual Canada Life clients, 93 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 59 mutual funds under the Quadrus Group of Funds™ brand and over 5,000 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] • 17% market share of group capital accumulation plans[2] • 23% new sales market share of single premium group annuities[1]	**Group Retirement Services** • Group Capital Accumulation Plans • Non-registered savings programs • Deferred profit sharing plans • Defined contribution pension plans • Group RRSPs & TFSAs Invested in: • Segregated funds • Guaranteed investment options • Single company stock • Retirement Income Plans • Payout annuities • Deferred annuities • Retirement income funds • Life income funds • Investment management services only plans Invested in: • Segregated funds • Guaranteed investment options • Securities	**Individual Retirement & Investment Services** • Savings plans • RRSPs • Non-registered savings programs • TFSAs Invested in: • Segregated funds • Mutual funds • Guaranteed investment options • Retirement Income Plans • Segregated funds with GMWB rider • Retirement income funds • Life income funds • Payout annuities • Deferred annuities • Residential mortgages • Banking products	**Associated with:** ***Great-West Life Distribution*** • 2,868 Great-West Life financial security advisors • 2,068 advisors associated with a number of intercorporate arrangements • 5,698 independent brokers ***London Life Distribution*** • 3,760 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors ***Canada Life Distribution*** • 7,737 independent brokers associated with 36 MGAs • 1,897 advisors associated with 14 national accounts • 3,509 Investors Group consultants who actively sell Canada Life products • 141 direct brokers and producer groups **Quadrus Investment Services Ltd.** (also included in Great-West Life and London Life advisor counts): • 4,133 investment representatives **Group Retirement Services** • Benefits Consultants, Brokers and Affiliated advisors (as above)

(1) As at September 30, 2016
(2) As at June 30, 2016

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] • 21% market share for employee/employer plans[2] • Leading market share with 39% for creditor products[2] with coverage provided to over 7.4 million plan members[1] • 5% market share for direct marketing products[2] with coverage provided to over 0.6 million plan members[1]	***Life and Health*** • Life • Disability • Critical Illness • Accidental death & dismemberment • Dental • Expatriate coverage • Extended health care ***Creditor*** • Creditor life • Creditor disability • Creditor job loss • Creditor critical illness • Creditor credit card outstanding balance	• 119 account managers and sales staff located in 18 Group Offices • 81 Regional Employee Benefits Managers and Selectpac Sales Specialists located in 28 Sales and Marketing Centres

[1] As at December 31, 2016
[2] As at December 31, 2015

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. The Company's broad spectrum of distribution associates, including exclusive and independent channels, provides important strategic advantages within the Canadian market.

WEALTH MANAGEMENT

The wealth management marketplace is very competitive. The Company's main competitors include mutual fund companies, insurance companies, banks and investment advisors, as well as other service and professional organizations. New competitors have entered the marketplace leading to increased competition. 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. Wealth Management's broad spectrum of distribution associates, including exclusive and independent channels, provide important strategic advantages within the Canadian market.

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 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 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Premiums and deposits	**$ 6,681**	$ 6,054	$ 6,110	**$ 24,661**	$ 23,564
Sales	**3,871**	3,117	3,492	**12,933**	12,635
Fee and other income	**386**	377	369	**1,494**	1,459
Net earnings - common shareholders	**326**	289	262	**1,218**	1,195
Total assets	**$ 153,524**	$ 152,484	$ 145,895		
Proprietary mutual funds and institutional net assets	**5,852**	5,625	5,039		
Total assets under management	**159,376**	158,109	150,934		
Other assets under administration	**15,911**	15,815	15,390		
Total assets under administration	**$ 175,287**	$ 173,924	$ 166,324		

Net earnings - common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Individual Insurance	**$ 103**	$ 70	$ 51	**$ 345**	$ 307
Wealth Management	**132**	99	119	**436**	479
Group Insurance	**98**	110	74	**400**	432
Corporate	**(7)**	10	18	**37**	(23)
Net earnings	**$ 326**	$ 289	$ 262	**$ 1,218**	$ 1,195

2016 DEVELOPMENTS

- Premiums and deposits for the twelve months ended December 31, 2016 were $24.7 billion compared to $23.6 billion for the same period in 2015. Premiums and deposits in the fourth quarter of 2016 were $6.7 billion, a 9% increase from the same quarter last year.
- Sales for the twelve months ended December 31, 2016 were $12.9 billion compared to $12.6 billion for the same period in 2015. Sales in the fourth quarter of 2016 were $3.9 billion, an 11% increase from the same quarter in 2015, which reflects strong sales across all lines of business including a 161% increase in Individual Life sales and a 29% increase in Group Retirement Services sales. Group Insurance led the market in sales both in the quarter and for the full year of 2016.
- Fee and other income for the twelve months ended December 31, 2016 was $1,494 million compared to $1,459 million for the same period in 2015. Fee and other income was $386 million for the fourth quarter of 2016, an increase of $17 million compared to the same quarter in 2015.
- Net earnings for the twelve months ended December 31, 2016 were $1,218 million compared to $1,195 million for the same period in 2015. Net earnings for the fourth quarter of 2016 were $326 million, an increase of $64 million compared to the same quarter last year, primarily due to favourable mortality and morbidity experience as well as higher net fee income, partially offset by lower contributions from insurance contract liability basis changes.
- In 2017, Great-West Life, London Life and Canada Life will realign their operations into two new business units: one focused on individual customers and the other on group customers. As part of the realignment, a new strategic customer marketing function is being created to provide a more holistic customer experience through digital and innovative capabilities and services.

- The Company is an active participant in the pension plan de-risking market within Canada. During the fourth quarter of 2016, Lifeco's Canadian operations entered into its first longevity swap transaction. This transaction supplements the other products and strategies that the Company offers to assist companies in managing their pension plan risk.
- Group Insurance extended its market reach and self-service options, with several new initiatives and online offerings:
    - Great-West Life announced that in early 2017 it will begin providing small group insurance product options to Collage Technologies Inc., which offers online automated HR services and tools to Canadian businesses.
    - Great-West Life's e-Benefit portal is available to advisors in the individual health benefits market for a more efficient and convenient sales experience.
    - Creditor Insurance launched a Customer Self-Service Portal, which allows claimants to securely view the status of their disability or job loss claim.
- Great-West Life and its subsidiaries, London Life and Canada Life, were honoured to again be selected as one of Canada's Top 100 Employers. They were also named as one of Canada's Top Employers for Young People.

BUSINESS UNITS - CANADA

INDIVIDUAL INSURANCE

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Premiums and deposits	**$ 1,543**	$ 1,298	$ 1,304	**$ 5,371**	$ 4,894
Sales	**341**	164	137	**785**	530
Net earnings	**103**	70	51	**345**	307

Premiums and deposits
Individual Insurance premiums for the fourth quarter of 2016 increased by $239 million to $1,543 million compared to the same quarter last year. Individual Life premiums for the quarter increased by $237 million to $1,458 million compared to the same quarter last year, primarily due to a 24% increase in participating life premiums. Living Benefits premiums of $85 million were comparable to same quarter last year.

For the twelve months ended December 31, 2016, Individual Insurance premiums increased by $477 million to $5,371 million compared to the same period last year. Individual Life premiums increased by $472 million to $5,035 million compared to the same period last year, primarily due to a 13% increase in participating life premiums. Living Benefits premiums of $336 million were comparable to the same period last year.

Individual Insurance premiums for the fourth quarter of 2016 increased by $245 million compared to the previous quarter, primarily due to a 26% increase in participating life premiums.

Sales
Individual Insurance sales for the fourth quarter of 2016 increased by $204 million to $341 million compared to the same quarter last year, reflecting an increase in participating life sales of $185 million or 183%, and an increase in Universal Life and Term Life insurance product sales of $19 million or 73%. The increase in Individual Life sales was primarily due to changes to tax exempt legislation effective in January 2017. Living Benefits product sales of $10 million were comparable to the same quarter last year.

For the twelve months ended December 31, 2016, Individual Insurance sales increased by $255 million to $785 million compared to the same period last year. Participating life sales increased by $225 million or 58%, while Universal Life and Term Life insurance product sales increased by $27 million or 25%, primarily due to the same reasons discussed for the in-quarter results. Living Benefit product sales increased $3 million or 9% compared to the same period last year.

Individual Insurance sales for the fourth quarter of 2016 increased by $177 million compared to the previous quarter, primarily due to a 134% increase in participating life sales and a 41% increase in Universal Life and Term Life insurance product sales, driven by the same reasons discussed for the in-quarter results.

Net earnings

Net earnings for the fourth quarter of 2016 increased by $52 million to $103 million compared to the same quarter last year. The increase was primarily due to higher contributions from investment experience and favourable mortality experience, partially offset by less favourable morbidity and policyholder behaviour experience.

For the twelve months ended December 31, 2016, net earnings increased by $38 million to $345 million compared to the same period last year. The increase was primarily due to higher contributions from investment experience and favourable mortality experience, partially offset by lower contributions from insurance contract liability basis changes, higher new business strain as well as less favourable morbidity and policyholder behaviour experience.

Net earnings for the fourth quarter of 2016 increased by $33 million compared to the previous quarter. The increase was primarily due to higher contributions from investment experience and lower new business strain, partially offset by less favourable morbidity experience.

For the fourth quarter of 2016, net earnings attributable to the participating account increased by $138 million to $178 million compared to the same quarter last year, primarily due to higher contributions from insurance contract liability basis changes.

For the twelve months ended December 31, 2016, net earnings attributable to the participating account increased by $80 million to $191 million compared to the same period last year. The increase was primarily due to higher contributions from insurance contract liability basis changes, partially offset by lower contributions from investment experience on participating account surplus assets and higher new business strain.

Net earnings attributable to the participating account for the fourth quarter of 2016 increased by $181 million compared to the previous quarter, primarily due to higher contributions from insurance contract liability basis changes and lower expenses, partially offset by higher new business strain.

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 2016. 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 2017 and beyond. The Company has reviewed its strategies with the goal of achieving superior organic growth from profitable products.

In 2017, 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 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.

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.

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 2017. The Company will continue to enhance its suite of product solutions, including launching updated participating whole life, term and universal life insurance products that comply with new tax exempt legislation effective January 2017, and will continue to focus on growing its business organically by constantly improving service to clients.

WEALTH MANAGEMENT

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Premiums and deposits	**$ 3,041**	$ 2,716	$ 2,804	**$ 10,979**	$ 10,832
Sales	**3,350**	2,863	3,220	**11,476**	11,472
Fee and other income	**331**	326	316	**1,279**	1,247
Net earnings	**132**	99	119	**436**	479

Premiums and deposits

Premiums and deposits for the fourth quarter of 2016 increased by $237 million to $3,041 million compared to the same quarter last year. The increase was primarily due to higher premiums and deposits related to single premium group annuities (SPGAs), partially offset by lower premiums and deposits related to group capital accumulation plans (GCAP).

For the twelve months ended December 31, 2016, premiums and deposits increased by $147 million to $10,979 million compared to the same period last year. The increase was primarily due to higher premiums and deposits related to SPGAs and GCAP products, partially offset by lower deposits related to individual investment funds, reflective of a decline in industry asset cash flows pertaining to segregated funds and mutual funds.

Premiums and deposits for the fourth quarter of 2016 increased by $325 million compared to the previous quarter. The increase was primarily due to higher premiums and deposits related to SPGAs and individual investment funds.

Sales

Sales for the fourth quarter of 2016 increased by $130 million to $3,350 million compared to the same quarter last year. The increase was primarily due to higher sales of SPGAs, partially offset by lower sales of individual investment funds.

For the twelve months ended December 31, 2016, sales of $11,476 million were comparable to the same period last year as higher sales of SPGAs and GCAP products were offset by lower sales of individual investment funds.

Sales for the fourth quarter of 2016 increased by $487 million compared to the previous quarter. The increase was primarily driven by higher sales related to SPGAs and individual investment funds, partially offset by lower sales of GCAP products.

For the GCAP and proprietary individual investment fund business, net cash inflows for the fourth quarter of 2016 were $193 million compared to $358 million in the same quarter last year and net cash outflows of $784 million in the previous quarter, which included a $910 million withdrawal of a lower margin GCAP plan. Excluding the GCAP plan withdrawal discussed for the in-quarter results, net cash inflows for the twelve months ended December 31, 2016 were $725 million compared to $788 million for the same period last year.

Assets under administration

	December 31	
	2016	2015
Assets under management		
Individual Retirement & Investment Services		
Risk-based products	**$ 5,527**	$ 5,739
Segregated funds	**31,931**	29,836
Proprietary mutual funds	**5,530**	4,917
Group Retirement Services		
Risk-based products	**7,595**	7,161
Segregated funds	**42,978**	40,433
Institutional assets	**322**	122
Total assets under management	**$ 93,883**	$ 88,208
Other assets under administration[1]		
Individual Retirement & Investment Services	**7,240**	6,620
Group Retirement Services	**538**	526
Total other assets under administration	**$ 7,778**	$ 7,146
Total assets under administration	**$ 101,661**	$ 95,354
Summary by business/product		
Individual Retirement & Investment Services	**50,228**	47,112
Group Retirement Services	**51,433**	48,242
Total assets under administration	**$ 101,661**	$ 95,354

(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 2016 increased by $15 million to $331 million compared to the same quarter last year, primarily due to higher average assets under administration driven by higher average equity market levels, partially offset by lower margins.

Fee and other income for the twelve months ended December 31, 2016 increased by $32 million to $1,279 million compared to the same period last year. The increase was primarily due to growth in other income related to distribution arrangements as well as higher fee income driven by higher average assets under administration, partially offset by lower margins.

Fee and other income for the fourth quarter of 2016 increased by $5 million compared to the previous quarter, primarily due to higher average assets under administration driven by higher average equity market levels.

Net earnings
Net earnings for the fourth quarter of 2016 increased by $13 million to $132 million compared to the same quarter last year. The increase was primarily due to higher net fee income, higher new business volumes and more favourable longevity experience, partially offset by lower contributions from insurance contract liability basis changes.

For the twelve months ended December 31, 2016, net earnings decreased by $43 million to $436 million compared to the same period last year. The decrease was primarily due to lower contributions from insurance contract liability basis changes, less favourable longevity experience, lower contributions from investment experience and higher operating expenses, partially offset by higher new business volumes.

Net earnings for the fourth quarter of 2016 increased by $33 million compared to the previous quarter, primarily due to higher contributions from insurance contract liability basis changes, more favourable longevity experience, higher contributions from investment experience and higher new business volumes.

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.

In 2016, the Company's HelloLife™ Planner won the 2016 Internet Advertising Competition Award for "Best Insurance Interactive Application". The planner allows the Company's financial security advisors to help individuals create a retirement program tailored to their specific needs. The Company also launched a pilot for Wayfinder, a new online application that allows Group Retirement Services members to create customized financial plans. Wayfinder uses innovative tools to allow members to connect directly with online financial coaches, and to import data from external financial institutions to create a complete picture of their financial status. 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.

In 2017, 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.

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 2017 and beyond. Wealth Management's strategy and organization are focused on achieving growth from profitable products.

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, targets to offset these impacts by growing assets under management and continuing to improve the Company's operational efficiency.

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 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Premiums and deposits	**$ 2,097**	$ 2,040	$ 2,002	**$ 8,311**	$ 7,838
Sales	**180**	90	135	**672**	633
Fee and other income	**41**	39	41	**165**	157
Net earnings	**98**	110	74	**400**	432

Premiums and deposits
Premiums and deposits for the fourth quarter of 2016 increased by $95 million to $2,097 million compared to the same quarter last year, due to an increase in premiums and deposits across most market segments.

For the twelve months ended December 31, 2016, premiums and deposits increased by $473 million to $8,311 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 2016 increased by $57 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 2016 increased by $45 million to $180 million compared to the same quarter last year. The increase was primarily due to higher sales in the large case and creditor markets. Sales of creditor products and large cases can be highly variable from quarter to quarter.

For the twelve months ended December 31, 2016, sales increased by $39 million to $672 million compared to the same period last year. The increase was due to higher sales across most market segments.

Sales for the fourth quarter of 2016 increased by $90 million compared to the previous quarter, due to higher sales across all market segments.

Fee and other income
Fee and other income of $41 million for the fourth quarter of 2016 was comparable to both the same quarter last year and to the previous quarter.

Fee and other income of $165 million for the twelve months ended December 31, 2016 was also comparable to the same period last year.

Net earnings
Net earnings for the fourth quarter of 2016 increased by $24 million to $98 million compared to the same quarter last year. The increase was primarily due to more favourable non-refund long-term disability morbidity experience and more favourable mortality experience, partially offset by lower contributions from insurance contract liability basis changes.

For the twelve months ended December 31, 2016, net earnings decreased by $32 million to $400 million compared to the same period last year. The decrease was primarily due to less favourable long-term disability morbidity experience, mostly related to large non-refund cases, and higher income taxes, as net earnings in 2015 were more favourably impacted by changes to certain income tax estimates, partially offset by more favourable mortality experience and higher contributions from insurance contract liability basis changes. The Company continues to implement rate increases with respect to long-term disability contracts, where appropriate, when contracts are renewed.

Net earnings for the fourth quarter of 2016 decreased by $12 million compared to the previous quarter, primarily due to lower contributions from insurance contract liability basis changes, partially offset by more favourable mortality experience and higher contributions from investment experience.

OUTLOOK – GROUP INSURANCE

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During 2016, 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 2016, Canada Corporate had a net loss of $7 million compared to net earnings of $18 million for the same quarter last year. The change in net earnings was primarily due to lower net investment income and higher operating expenses. In addition, net earnings for the fourth quarter of 2015 were more favourably impacted by changes to certain tax estimates.

For the twelve months ended December 31, 2016, Canada Corporate had net earnings of $37 million compared to a net loss of $23 million for the same period last year. The change in net earnings was primarily due to the favourable impact of changes to certain income tax estimates and higher net investment income, which included a gain on sale of an investment property during the second quarter, partially offset by higher operating expenses.

For the fourth quarter of 2016, Canada Corporate had a net loss of $7 million compared to net earnings of $10 million in the previous quarter. The change in net earnings was primarily due to lower net investment income. In addition, net earnings for the third quarter of 2016 were more favourably impacted by changes to certain tax estimates.

OUTLOOK – CANADA

In 2017, Great-West Life, London Life and Canada Life will realign their operations into two new business units: one focused on individual customers and the other on group customers, supported by a new strategic customer marketing function. With the goal of creating a more holistic customer experience, productivity gains and cost savings associated with these changes will support earnings growth balanced with reinvestment in customer-centered innovations and service offerings. As part of the realignment, Wealth Management's Individual Retirement & Investment Services product lines will combine with the Individual Insurance business unit to create a business unit that is focused on individual customers. Wealth Management's Group Retirement Services product lines will combine with the Group Insurance business unit to create a business unit that is focused on group customers.

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 its Asset Management business unit, the Company provides investment management, certain administrative functions, distribution and related services, through a broad range of investment products.

TRANSLATION OF FOREIGN CURRENCY

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

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 the 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 22 recordkeeping and two investment only state clients.

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 and performance fees as well as service and distribution fees. Accordingly, fluctuations in the financial markets and changes in the composition of assets or accounts affect revenues and results of operations.

MARKET OVERVIEW

PRODUCTS AND SERVICES

The Company provides a focused product offering that is distributed through a variety of channels.

FINANCIAL SERVICES

MARKET POSITION	PRODUCTS AND SERVICES	DISTRIBUTION
• Second largest defined contribution recordkeeper in the country[4], providing services for over 8 million participant accounts and 36,334 plans[1] • 24% market share in state and local government deferred compensation plans, based on number of participant accounts[2] • 32% market share of individual life insurance sold through the retail bank channel[3] • 10% market share of executive benefits markets life insurance purchased by financial institutions[3] • 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 • Administrative and recordkeeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans • Fund management, investment and advisory services • Individual retirement accounts (IRAs), individual term and single premium life insurance and individual annuity products • Executive benefits markets life insurance products	• Retirement services products distributed to plan sponsors through brokers, consultants, advisors, third-party administrators and banks • FASCore recordkeeping and administrative services distributed through institutional clients • Individual life and annuity products distributed through wholesale and retail sales force, banks, broker dealers and investment advisors • IRAs available to individuals through the Retirement Solutions Group • Executive benefits markets life insurance products distributed through wholesalers and specialized consultants

(1) As at December 31, 2016
(2) As at September 30, 2016
(3) Market share based on annualized Q1 - Q3 2016 sales data
(4) As at December 31, 2015

ASSET MANAGEMENT

MARKET POSITION	PRODUCTS AND SERVICES	DISTRIBUTION
• A global asset manager with assets under management of US$152 billion[1] • Global distribution includes sales teams that are focused on major institutional markets in the U.S., Europe, the Middle East, Asia and Australia and through a strategic distribution relationship in Japan	**Investment Management Products & Services** • Individual retail investors - a family of open-end and closed-end mutual funds, college savings plans and variable annuity products • 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.) • Investment services for defined contribution investment only plans • Alternative investment products across the fixed-income, quantitative and equity groups **Administrative Services** • Transfer agency, underwriting, distribution, shareholder services, trustee and other fiduciary services	**Individual Retail Investors** • A broad network of distribution relationships with unaffiliated broker dealers, financial planners, registered investment advisors and other financial institutions that distribute the Putnam Funds and defined contribution investment only services to their customers, which, in total, includes approximately 157,500 advisors • Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents • Retail distribution channels are supported by Putnam's sales and relationship management team • Retirement plan sponsors and participants are supported by Putnam’s dedicated retirement plan professionals and through a relationship with Empower Retirement. **Institutional Investors** • Supported by Putnam's dedicated account management, product management and client service professionals • Strategic relationships with several investment management firms outside of the U.S.

[1] As at December 31, 2016

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 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Premiums and deposits	**$ 14,644**	$ 14,916	$ 15,956	**$ 59,627**	$ 53,648
Sales	**18,384**	23,011	31,630	**98,218**	95,715
Fee and other income	**619**	566	637	**2,311**	2,378
Net earnings - common shareholders	**55**	78	125	**249**	409
Net earnings - common shareholders (US$)	**41**	60	92	**188**	318
Total assets	**$ 87,243**	$ 86,824	$ 86,775		
Proprietary mutual funds and institutional net assets	**219,699**	216,458	218,231		
Total assets under management	**306,942**	303,282	305,006		
Other assets under administration	**534,428**	514,616	503,125		
Total assets under administration	**$ 841,370**	$ 817,898	$ 808,131		

Net earnings - common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Financial Services	**$ 80**	$ 89	$ 86	**$ 333**	$ 384
Asset Management[(1)]	**(3)**	(6)	41	**(52)**	32
Corporate[(1)]	**(22)**	(5)	(2)	**(32)**	(7)
	$ 55	$ 78	$ 125	**$ 249**	$ 409
Financial Services (US$)	**$ 59**	$ 68	$ 63	**$ 250**	$ 299
Asset Management (US$)[(1)]	**(2)**	(5)	31	**(39)**	25
Corporate (US$)[(1)]	**(16)**	(3)	(2)	**(23)**	(6)
	$ 41	$ 60	$ 92	**$ 188**	$ 318

(1) For the three and twelve months ended December 31, 2016, Asset Management net earnings exclude restructuring expenses of $20 million (US$15 million), which are included in U.S. Corporate.

2016 DEVELOPMENTS

- Net earnings for the twelve months ended December 31, 2016 were US$188 million, a decrease of US$130 million compared to the same period in 2015. Net earnings for the three months ended December 31, 2016 were US$41 million, a decrease of US$51 million compared to the same quarter last year. Included in net earnings for the three and twelve months ended December 31, 2016 were restructuring costs of US$15 million relating to Putnam.
- On April 6, 2016, the U.S. Department of Labor issued a new rule redefining and expanding who is a fiduciary by reason of providing investment advice to a retirement plan or holder of an individual retirement account. Compliance with the rule will generally be required by April 10, 2017 (certain parts by January 1, 2018). The Company has analyzed the rule against current business practices particularly in its Empower Retirement and Individual Markets businesses. The rule requires changes to certain aspects of product and service delivery but management does not expect that it will prevent Great-West Financial or Putnam from executing on their overall business strategy and growth objectives. The U.S. Presidential Administration has directed the Department of Labor to review the impact of the rule, but it is uncertain at this time whether there will be a delay in the implementation date. As such, the Company continues with its implementation plan to comply with the original compliance date.

- The recent elections in the U.S. have brought into focus the prospects for significant policy changes, including corporate federal tax reform. Both Congress and the President share the same goal of reducing corporate income tax rates for businesses. A reduction in the corporate tax rate would likely have a favourable impact on the Company's effective tax rate in the years subsequent to the year of enactment. Any change in tax laws and rates may affect recorded deferred tax assets and deferred tax liabilities and the effective tax rate in the future. A reduction in the statutory corporate tax rate would result in a reduction in the deferred tax asset or deferred tax liability, which may give rise to a one-time negative impact on the financial results of operations in the year of enactment. Any one-time adjustment to the deferred tax accounts would not affect cash taxes paid.
- During the fourth quarter of 2016, Putnam announced that it was undertaking US$65 million in expense reductions and was realigning its resources to better position itself for current and future opportunities. These expense reductions are being addressed through a reduction in staff, elimination of certain non-core business programs and vendor consolidation. As of December 31, 2016, approximately US$40 million in annualized reductions has been achieved, with the remainder to be realized over 2017. As part of this effort, Putnam has reduced its staff by nearly eight percent, primarily operations and technology professionals, but also a small number of investment management professionals. For the three months ended December 31, 2016, the Company incurred restructuring costs relating to these initiatives that reduced net earnings by US$15 million. These restructuring costs are included in the U.S. Corporate results.

BUSINESS UNITS – UNITED STATES

FINANCIAL SERVICES

2016 DEVELOPMENTS

- Premiums and deposits for the twelve months ended December 31, 2016 of US$10.7 billion were comparable to the same period last year. Premiums and deposits for the three months ended December 31, 2016 were US$2.7 billion, a decrease of US$1.1 billion compared to the same quarter last year, primarily due to fewer large plan sales in Empower Retirement.
- Sales for the twelve months ended December 31, 2016 were US$39.3 billion, down from US$43.2 billion during the same period last year. Sales in the fourth quarter of 2016 were US$5.5 billion, a decrease of US$10.0 billion compared to the same quarter in 2015, primarily due to fewer large plan sales in Empower Retirement.
- Fee and other income for the twelve months ended December 31, 2016 was US$1,029 million compared to US$973 million for the same period in 2015. Fee and other income for the three months ended December 31, 2016 was US$288 million, an increase of US$28 million from the same quarter last year.
- Net earnings for the twelve months ended December 31, 2016 were US$250 million compared to US$299 million for the same period in 2015. Net earnings for the three months ended December 31, 2016 were US$59 million, a decrease of US$4 million from the same quarter last year.
- 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 originally anticipated investing approximately US$150 million in total on this multi-year initiative and had invested US$149 million by December 31, 2016. The Company expects the remaining investment to complete integration activities to be approximately US$10 million. In 2015, these costs decreased net earnings by US$34 million. For the three and twelve months ended December 31, 2016, these costs have decreased net earnings by US$3 million and US$22 million, respectively.

- The Company has set an annual cost savings target of US$40 million to US$50 million pre-tax, expected from the investment in the Empower Retirement business. 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 two to three 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 565 professionals based in India, as well as scale-driven cost improvements. 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. Empower Retirement participant accounts have grown to over 8 million at December 31, 2016 from over 7.5 million at December 31, 2015.

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Premiums and deposits	**$ 3,525**	$ 3,575	$ 5,087	**$ 14,156**	$ 13,798
Sales	**7,265**	11,670	20,761	**52,747**	55,865
Fee and other income	**383**	335	349	**1,362**	1,247
Net earnings	**80**	89	86	**333**	384
Premiums and deposits (US$)	**$ 2,650**	$ 2,729	$ 3,796	**$ 10,680**	$ 10,688
Sales (US$)	**5,462**	8,908	15,493	**39,324**	43,195
Fee and other income (US$)	**288**	256	260	**1,029**	973
Net earnings (US$)	**59**	68	63	**250**	299

Premiums and deposits

Premiums and deposits for the fourth quarter of 2016 decreased by US$1.1 billion to US$2.7 billion compared to the same quarter last year, primarily due to lower large plan sales in Empower Retirement in 2016.

For the twelve months ended December 31, 2016, premiums and deposits of US$10.7 billion were comparable to the same period last year. Empower Retirement had lower sales partially offset by higher deposits from existing participants and higher net transfers from retail investment options. This net decrease was offset by higher sales in the executive benefits, retail bank insurance and individual annuity lines of business for Individual Markets.

Premiums and deposits for the fourth quarter of 2016 of US$2.7 billion were comparable to the previous quarter.

Sales

Sales in the fourth quarter of 2016 decreased by US$10.0 billion to US$5.5 billion compared to the same quarter last year, primarily due to a decrease in Empower Retirement sales. The decrease in Empower Retirement sales was primarily due to lower large plan sales driven by two large plan sales in the fourth quarter of 2015, which did not recur in 2016. Large plan sales can be highly variable from period to period and tend to be lower margin.

For the twelve months ended December 31, 2016, sales decreased by US$3.9 billion to US$39.3 billion compared to the same period last year, due to a decrease of US$4.3 billion in Empower Retirement sales, partially offset by an increase of US$0.4 billion in Individual Markets. The decrease in Empower Retirement sales was primarily due to lower large plan sales. The increase in Individual Markets was due to higher sales in the executive benefits, retail bank insurance and individual annuity lines of business.

Sales in the fourth quarter of 2016 decreased by US$3.4 billion compared to the previous quarter. The decrease was primarily due to a decrease of US$3.2 billion in Empower Retirement sales, driven by lower large plan sales reflecting one large plan sale in the third quarter of 2016 that did not recur, as well as lower sales in the executive benefits line of business for Individual Markets.

Empower Retirement - customer account values (US$)

	Change for the twelve months ended December 31		Total at December 31		
	2016	2015	**2016**	2015	**% Change**
General account - fixed options	**$ 1,226**	$ 527	**$ 12,219**	$ 10,993	11%
Segregated funds - variable options	**(162)**	(801)	**19,421**	19,583	(1)
Proprietary mutual funds[(1)]	**3,665**	9,212	**19,950**	16,285	23
Unaffiliated retail investment options & administrative services only	**34,243**	(12,930)	**398,825**	364,582	9
	$ 38,972	$ (3,992)	**$ 450,415**	$ 411,443	9%

(1) At December 31, 2016, proprietary mutual funds included US$8.2 billion in Putnam managed funds (US$6.6 billion at December 31, 2015).

Empower Retirement customer account values at December 31, 2016 increased by US$39.0 billion compared to December 31, 2015, primarily due to higher average equity market levels and net cash inflows. Net cash inflows for the general account, proprietary mutual funds and unaffiliated retail investment options and administrative services only account values were partially offset by net asset outflows for segregated funds.

Fee and other income

Fee income is derived primarily from assets under management, assets under administration, shareholder servicing fees, administration and recordkeeping services and investment advisory services. Generally, fees are earned based on assets under management, assets under administration or the number of plans and participants for which services are provided.

Fee and other income for the fourth quarter of 2016 increased by US$28 million to US$288 million compared to the same quarter last year. Included in fee and other income for the fourth quarter of 2016 were reclassification adjustments of US$33 million while the fourth quarter of 2015 included adjustments of US$18 million relating to variable-asset based fee income. Excluding these adjustments, fee and other income increased US$13 million, primarily due to higher average equity market levels and growth in participants.

For the twelve months ended December 31, 2016, fee and other income increased by US$56 million to US$1,029 million compared to the same period last year. Excluding the adjustments discussed for the in-quarter results, the increase in fee and other income was US$41 million, primarily due to higher asset-based fees, driven by growth in these assets, due to positive net cash flows and higher average equity market levels.

Fee and other income for the fourth quarter of 2016 increased by US$32 million compared to the previous quarter, primarily due to the adjustment discussed for the in-quarter results.

Net earnings

Net earnings for the fourth quarter of 2016 decreased by US$4 million to US$59 million compared to the same quarter last year. Included in net earnings for the fourth quarter of 2015 was an adjustment of US$11 million to the contingent consideration related to the J.P. Morgan Retirement Plan Services (RPS) acquisition. Excluding this adjustment, net earnings increased by US$7 million, primarily due to higher contributions from contract liability basis changes, higher net fee income and higher contributions from investment experience, partially offset by higher operating expenses, driven primarily by business growth. Fourth quarter 2016 results included US$2 million of strategic and business development expenses related to Empower Retirement, compared to US$7 million for the fourth quarter of 2015.

For the twelve months ended December 31, 2016, net earnings decreased by US$49 million to US$250 million compared to the same period last year. Net earnings in 2016 included the positive impact of a management election to claim foreign tax credits of US$19 million, while net earnings in 2015 included an adjustment of US$11 million discussed for the in-quarter results. Excluding these items, net earnings decreased by US$57 million primarily due to higher operating expenses and lower contributions from investment experience, partially offset by higher contributions from contract liability basis changes. Included in the year-to-date net earnings were US$16 million of strategic and development expenses related to Empower Retirement, compared to US$28 million for the same period in 2015.

Net earnings for the fourth quarter of 2016 decreased by US$9 million compared to the previous quarter, primarily due to higher operating expenses.

OUTLOOK – FINANCIAL SERVICES

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As the second largest recordkeeping provider in the U.S., Empower Retirement is positioned for significant growth opportunities with expertise and diversification across all plan types, company sizes and market segments. Great-West Financial continually examines opportunities to structure products and develop strategies to stimulate growth in assets under management.

In 2017, Empower Retirement's strategies to drive sales growth will continue to include active marketing of the brand, investing in product differentiation and offering a best-in-class service model. In 2016, service enhancements were made to this model including standardizing and improving client-facing tools, optimizing advisor relationship management and client alignment as well as adopting best practices for participant communications. In 2017, investments will continue to be made to improve the customer web experiences, including adding innovative capabilities and ease of service products. These efforts in 2016 and 2017 are expected to increase customer retention and ultimately increase participant retirement savings.

In 2017, Great-West Financial will continue to pursue operational efficiencies. The conversion of the recordkeeping business to a single back-office platform continues and is expected to be completed in the first half of 2017. Upon completion of the conversion, Empower Retirement will provide a single recordkeeping platform. This platform includes a unique, interactive web-based experience which was launched in 2015 to help participants understand their retirement income needs. Great-West Global non-client facing operations will continue to expand with a focus on lower unit costs.

Through its Individual Markets line of business, Great-West Financial focuses on providing value and innovative products to the partners, brokers and the clients they serve to help them live well longer. Great-West Financial was the second largest distributor of life insurance through banks in 2016 and 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. Since June 2016, the Company has added 45 new broker dealers to its annuity platform, bringing the total number of advisors within the primary distribution channel for retirement income products, to more than 45,000. The new products launched in 2016 are expected to increase sales in 2017. The Company expects the innovative distribution and product strategies for longevity will increase Great-West Financial's 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 and corporate bank sales in 2016 are expected to drive future sales growth.

ASSET MANAGEMENT

2016 DEVELOPMENTS

- Putnam's ending assets under management (AUM) at December 31, 2016 of US$152.1 billion increased by US$3.8 billion compared to the same period last year, while average AUM for the twelve months ended December 31, 2016 of US$148.0 billion decreased by US$7.8 billion compared to the same period last year.
- Sales for the twelve months ended December 31, 2016 were US$34.3 billion compared to US$31.1 billion for the same period in 2015. Putnam's sales for the three months ended December 31, 2016 were US$8.4 billion compared to US$8.1 billion for the same period last year, driven by an increase in mutual fund sales.
- Fee income for the twelve months ended December 31, 2016 was US$716 million compared to US$885 million for the same period in 2015. For the three months ended December 31, 2016, fee income was US$178 million, a decrease of US$38 million compared to the same period last year.
- Putnam continues to sustain strong investment performance relative to its peers. As of December 31, 2016, approximately 85% of Putnam's fund assets performed at levels above the Lipper median on a five-year basis.
- For the 27th 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 25 of those years and the winner of DALBAR's Total Client Experience award for the past five years.
- In the fourth quarter of 2016, Putnam was ranked as the number one digital engagement leader for financial advisors, brokers and other intermediaries by DST kasina, LLC.

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Sales	**$ 11,119**	$ 11,341	$ 10,869	**$ 45,471**	$ 39,850
Fee income					
Investment management fees	**194**	194	218	**775**	864
Performance fees	**(6)**	(13)	14	**(30)**	28
Service fees	**37**	39	44	**157**	173
Underwriting & distribution fees	**11**	11	12	**47**	66
Fee income	**236**	231	288	**949**	1,131
Core net earnings (loss)(1) (3)	**(4)**	9	23	**(17)**	56
Less: Financing and other expenses (after-tax)(1)	**1**	(15)	18	**(35)**	(24)
Reported net earnings (loss)(3)	**(3)**	(6)	41	**(52)**	32
Sales (US$)	**$ 8,360**	$ 8,657	$ 8,111	**$ 34,295**	$ 31,097
Fee income (US$)					
Investment management fees (US$)	**146**	148	163	**585**	676
Performance fees (US$)	**(4)**	(10)	11	**(23)**	23
Service fees (US$)	**28**	30	33	**119**	135
Underwriting & distribution fees (US$)	**8**	8	9	**35**	51
Fee income (US$)	**178**	176	216	**716**	885
Core net earnings (loss) (US$)(1) (3)	**(3)**	7	17	**(12)**	43
Less: Financing and other expenses (after-tax) (US$)(1)	**1**	(12)	14	**(27)**	(18)
Reported net earnings (loss) (US$)(3)	**(2)**	(5)	31	**(39)**	25
Pre-tax operating margin(2) (3)	**(0.1)%**	7.0%	13.5%	**(1.9)%**	8.5%
Average assets under management (US$)	**151,903**	151,740	151,216	**148,003**	155,778

(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) includes 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.

(3) For the three and twelve months ended December 31, 2016, core and reported net earnings exclude restructuring expenses of $20 million (US$15 million), which are included in U.S. Corporate.

Sales

Sales for the fourth quarter of 2016 were US$8.4 billion compared to US$8.1 billion for the same quarter last year. The increase was due to an increase in mutual fund sales of US$0.4 billion, partially offset by lower institutional sales of US$0.1 billion.

For the twelve months ended December 31, 2016, sales increased by US$3.2 billion to US$34.3 billion compared to the same period last year. Institutional sales increased by US$4.7 billion, while mutual fund sales decreased by US$1.5 billion.

Sales in the fourth quarter of 2016 decreased by US$0.3 billion compared to the previous quarter, due to a US$1.2 billion decrease in institutional sales, mostly offset by a US$0.9 billion increase in mutual fund sales.

Fee income
Fee income is derived primarily from investment management fees, performance fees, transfer agency and other service fees, as well as underwriting and distribution fees. Generally, fees are earned based on AUM and may depend on financial markets, the relative performance of Putnam's investment products, the number of retail accounts and sales.

Fee income for the fourth quarter of 2016 decreased by US$38 million to US$178 million compared to the same quarter last year. The decrease was primarily due to lower asset-based fees reflecting lower average AUM, driven by a reduction in mutual funds, reflective of the decline in industry flows in the segments where Putnam operates, as well as lower performance fees on mutual funds and institutional products.

For the twelve months ended December 31, 2016, fee income decreased by US$169 million to US$716 million compared to the same period last year. The decrease was primarily due to the same reasons discussed for the in-quarter results, as well as lower service fees reflecting a decrease in the number of accounts.

Fee income for the fourth quarter of 2016 increased by US$2 million compared to the previous quarter, primarily due to increased performance fees due to the seasonality in which these fees were earned, partially offset by lower investment management fees as discussed for the in-quarter results.

Net earnings
The core net loss (a non-IFRS financial measure) for the fourth quarter of 2016 was US$3 million, excluding restructuring costs of US$15 million, compared to core net earnings of US$17 million for the same quarter last year. The decrease in net earnings was primarily due to lower net fee income and lower net investment income, driven by unrealized losses on seed capital, partially offset by lower compensation costs. In the fourth quarter of 2016, the reported net loss, including financing and other expenses, was US$2 million compared to reported net earnings of US$31 million for the same quarter last year. Financing and other expenses for the fourth quarter of 2016 represent an expense recovery of US$1 million, compared to an expense recovery of US$14 million for the same quarter last year. Included in financing and other expenses was the positive impact of an adjustment to certain income tax estimates of US$11 million for the current quarter, compared to US$27 million for the same quarter last year.

For the twelve months ended December 31, 2016, the core net loss was US$12 million, excluding restructuring costs discussed for the in-quarter results, compared to core net earnings of US$43 million for the same period last year. The decrease was primarily due to lower net fee income, partially offset by higher net investment income and lower compensation costs. For the twelve months ended December 31, 2016, the reported net loss, including financing and other expenses, was US$39 million compared to reported net earnings of US$25 million for the same period last year. Financing and other expenses for the twelve month period ended December 31, 2016 increased by US$9 million to US$27 million compared to the same period last year, primarily due to the positive impact of adjustments to certain income tax estimates of US$17 million for the current year compared to US$27 million for the same period last year.

The core net loss for the fourth quarter of 2016 was US$3 million, excluding restructuring costs discussed for the in-quarter results, compared to core net earnings of US$7 million for the previous quarter. Core net earnings for the third quarter of 2016 included a one-time expense recovery of US$8 million relating to the amortization of certain sales-based commissions due to a change in accounting estimate. Excluding this item, the core net loss increased by US$2 million, primarily due to lower net investment income, driven by unrealized losses on seed capital, mostly offset by lower compensation costs. The reported net loss, including financing and other expenses, for the fourth quarter of 2016 was US$2 million compared to US$5 million for the previous quarter. Financing and other expenses for the fourth quarter of 2016 represent an expense recovery of US$1 million compared to expenses of US$12 million for the previous quarter. This change was primarily due to the positive impact of adjustments to certain income tax estimates discussed for the in-quarter results.

ASSETS UNDER MANAGEMENT

Assets under management ($US)	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Beginning assets	**$ 153,798**	$ 147,650	$ 146,638	**$ 148,370**	$ 157,572
Sales - Mutual funds	**4,636**	3,771	4,252	**17,115**	18,593
Redemptions - Mutual funds	**(5,560)**	(5,363)	(6,543)	**(24,654)**	(22,735)
Net asset flows - Mutual funds	**(924)**	(1,592)	(2,291)	**(7,539)**	(4,142)
Sales - Institutional	**3,724**	4,886	3,859	**17,180**	12,504
Redemptions - Institutional	**(4,251)**	(2,838)	(2,772)	**(13,025)**	(11,221)
Net asset flows - Institutional	**(527)**	2,048	1,087	**4,155**	1,283
Net asset flows - Total	**(1,451)**	456	(1,204)	**(3,384)**	(2,859)
Impact of market/performance	**(225)**	5,692	2,936	**7,136**	(6,343)
Ending assets	**$ 152,122**	$ 153,798	$ 148,370	**$ 152,122**	$ 148,370
Average assets under management					
Mutual funds	**71,679**	72,563	80,180	**72,326**	84,689
Institutional assets	**80,224**	79,177	71,036	**75,677**	71,089
Total average assets under management	**$ 151,903**	$ 151,740	$ 151,216	**$ 148,003**	$ 155,778

Average AUM for the three months ended December 31, 2016 was US$151.9 billion, an increase of US$0.7 billion compared to the same quarter last year, primarily due to the cumulative impact of positive markets over the twelve month period, mostly offset by the cumulative impact of net asset outflows over the same period. Net asset outflows for the fourth quarter of 2016 were US$1.5 billion compared to US$1.2 billion for the same quarter last year. In-quarter mutual fund net asset outflows were US$0.9 billion and institutional net asset outflows were US$0.6 billion.

Average AUM for the twelve months ended December 31, 2016 decreased by US$7.8 billion to US$148.0 billion compared to the same period last year, primarily due to the cumulative impact of net asset outflows. Net asset outflows for the twelve months ended December 31, 2016 were US$3.4 billion compared to US$2.9 billion for the same period last year. Year-to-date mutual fund net asset outflows of US$7.5 billion were partially offset by institutional net asset inflows of US$4.1 billion.

Average AUM increased by US$0.2 billion compared to the previous quarter, primarily due to the impact of markets, driven by the timing of market movements during the quarters.

OUTLOOK – ASSET MANAGEMENT

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

Putnam remains committed to providing strong, long-term investment performance across asset classes for its clients and investors in the mutual fund, institutional and retirement marketplaces.

In 2017, 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.

Innovation will remain a key differentiator in 2017, 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. Putnam continues to increasingly incorporate digital technology throughout its business to drive greater efficiencies and create business opportunities.

Putnam will continue to focus on growth of revenues and assets in 2017, while at the same time managing firm-wide expenses, as the firm seeks to build a scalable, profitable asset management franchise.

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 2016, the net loss increased by US$14 million to US$16 million compared to the same quarter in 2015, primarily due to higher restructuring costs. Fourth quarter 2016 results included restructuring costs of US$15 million relating to Putnam and US$1 million relating to RPS, compared to US$2 million of RPS related restructuring costs for the same quarter last year.

For the twelve months ended December 31, 2016, the net loss increased by US$17 million to US$23 million compared to the same period in 2015, primarily due to higher restructuring costs as well as a legal settlement related to discontinued operations. Included in the year-to-date results were US$15 million of restructuring costs relating to Putnam and US$6 million of restructuring costs relating to RPS, compared to US$6 million of RPS related restructuring costs for the same period last year.

The net loss for the three months ended December 31, 2016 increased by US$13 million to US$16 million compared to the previous quarter, primarily due to higher restructuring costs, partially offset by a legal settlement related to discontinued operations in third quarter of 2016 that did not recur.

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 the 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 guaranteed annuities, investments (including retirement drawdown) and group insurance. These products are distributed through independent financial advisors (IFAs) and employee benefit consultants. The international operations based in the Isle of Man and Ireland offer investment, savings and individual protection products that are sold through IFAs and private banks in the U.K. and in other selected territories. Canada Life Investments is the fund management division in the U.K. and manages over £35 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 managers in the U.K. In 2015, the Company acquired a block of payout annuities from Equitable Life for £875 million with the agreement that Canada Life would provide future pension payments on the annuities. The transfer of the block of annuities was completed in February, 2016 following court approval.

The core products offered by Irish Life in Ireland are savings and investments, individual and group life insurance, health insurance and pension products. These products are distributed through independent brokers, a direct sales force and tied agent bank branches. On August 1, 2016, Irish Life completed the acquisition of Aviva Health Insurance Ireland Limited and assumed control of GloHealth Financial Services Limited. The new Irish health insurance business operates under the Irish Life Health brand. Irish Life Health offers individual and corporate health plans, distributed through independent brokers and direct channels. Irish Life Investment Managers (ILIM) is the Company's fund management operation in Ireland and manages over €63 billion of assets. ILIM manages assets on behalf of companies in the Lifeco group as well as 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 manage 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. • The market leader of the group life market, with 25% share[5] • A market leader in group income protection, with 19% share[5] • Among the top three insurers in payout annuities, with a market share in excess of 10% (Advisor only)[2] • A market leading international life company selling into the U.K. market, with 24% market share[3] • Among the top five in the onshore unit-linked single premium bond market, with 6% market share[3] **Ireland** • The market leading life assurance company, with 43% share[4] • Strong position in the retail life and pensions market, with a 31% share[4] • Leading positions in the group pensions, group risk and corporate annuities markets with a 57% share[4] • ILIM is the largest institutional fund manager in Ireland with a 47% share[5] and over €63 billion assets under management[1] • Third largest health insurance business through its Irish Life Health brand[5] **Germany** • One of the top three insurers in the independent intermediary unit-linked market[5] • Among the top ten in the overall unit-linked market[5]	**U.K.** • Individual and Bulk Payout Annuities • Fixed Term Annuities • Pension Investment • Savings • Life Insurance • Income Protection (Disability) • Critical Illness **Ireland** • Individual and Group Risk & Pensions • Individual and Bulk Payout Annuities • Health Insurance • Wealth Management Services • Individual Savings and Investment • Institutional Investment Management **Germany** • Pensions • Income Protection (Disability) • Critical Illness • Variable Annuities (GMWB) • Individual Life Insurance	**U.K.** • IFAs • Private Banks • Employee Benefit Consultants **Ireland** • Independent Brokers • Pensions and Investment Consultants • Direct Sales Force • Tied Bank Branch Distribution with various Irish Banks **Germany** • Independent Brokers • Multi-tied Agents

(1) As at December 31, 2016
(2) Market share based on annualized Q1 to Q3 2016 data through IFAs, restricted whole market advisors and Non-Advised Distributor
(3) As at September 30, 2016
(4) As at June 30, 2016
(5) As at December 31, 2015

REINSURANCE

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

(1) As at November, 2015

COMPETITIVE CONDITIONS

United Kingdom
In the U.K., the Company has strong market positions for group risk, payout annuities and wealth management products, where, combining sales from onshore and international businesses, Canada Life is one of the top three unit-linked single premium bond provider in the U.K.

The market for payout annuities increased in 2016. The Company benefited from increased demand from customers for competitive pricing, which increased the proportion of annuities sold through independent financial advisors, the Company's primary distribution channel. The Company continued to offer both standard and enhanced annuities and maintained its market share in this market as well as pension products for individuals who want to take advantage of the greater pension flexibility introduced in recent years. The Company also offers bulk annuities aimed at trustees of defined benefits plans who want to insure pension annuities in payment. There have been a number of new entrants to this market; however, this is a sizeable market and demand from trustees remains strong. The market is expected to grow as pension plan funding improves and trustees consider ways to reduce risk from pension plans. With expertise and experience in longevity and investment products, the Company is well placed to continue to grow new business.

In international wealth management operations, the market in 2016 remained relatively flat. The more profitable retail sales have been maintained and this is an area of continued focus. Future estate planning continues to be an area of focus for U.K. advisors and Canada Life International is among the leading companies in this sector of the market. In the fourth quarter of 2016, Canada Life added a Capital Redemption Bond option to the key products in both the Isle of Man and Ireland, the first international life group to offer this choice in both jurisdictions.

The impact of Brexit remains uncertain as both the U.K. and EU prepare to start exit negotiations later in 2017.

Ireland
The Company maintained its market-leading presence in Ireland through Irish Life and continues to be the largest life assurance company growing its market share to 43%. 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 €63 billion of assets under management, including funds managed for other companies within the Lifeco group, as at December 31, 2016.

The Company now operates its Irish health insurance business under the Irish Life Health brand, where it has a top three position with 21% market share.

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 €8.5 billion of assets under management as at December 31, 2016.

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 increased market share and maintained a top three position in this segment of the market through continuous product, technology and service improvements. The market for traditional German insurance products has been challenging following the introduction of Solvency II and the further reduction in the statutory guaranteed interest rate on these products. Similar to 2015, this new environment continues to create growth opportunities 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, an industry survey released in November 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 declining 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.

The 2016 Atlantic Hurricane season was the most active and costly since 2012. There was only one event, Hurricane Matthew, which had a material impact on the U.S. Current industry estimates of insured losses arising from Hurricane Matthew range from US$4 billion to US$9 billion. The Company does not expect to incur claims from this hurricane. The pricing in the property catastrophe market continues to be challenging, driven by capacity in the industry.

Selected consolidated financial information - Europe

	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Premiums and deposits	**$ 8,714**	$ 8,292	$ 6,056	**$ 33,178**	$ 27,763
Fee and other income	**340**	328	327	**1,296**	1,221
Net earnings - common shareholders	**307**	313	303	**1,200**	1,174
Total assets	**$ 159,145**	$ 162,181	$ 167,265		
Proprietary mutual funds and institutional net assets	**33,664**	34,461	29,210		
Total assets under management	**192,809**	196,642	196,475		
Other assets under administration	**38,952**	40,044	41,587		
Total assets under administration[(1)]	**$ 231,761**	$ 236,686	$ 238,062		

(1) At December 31, 2016, total assets under administration excludes $7.9 billion of assets managed for other business units within the Lifeco group of companies ($7.2 billion at September 30, 2016).

Net earnings - common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Insurance & Annuities	**$ 225**	$ 251	$ 234	**$ 927**	$ 886
Reinsurance	**86**	54	73	**277**	313
Europe Corporate	**(4)**	8	(4)	**(4)**	(25)
Net earnings	**$ 307**	$ 313	$ 303	**$ 1,200**	$ 1,174

2016 DEVELOPMENTS

- Net earnings for the twelve months ended December 31, 2016 were $1,200 million, an increase of $26 million compared to the same period in 2015. Net earnings for the three months ended December 31, 2016 were $307 million, an increase of $4 million from the same quarter last year.
- Premiums and deposits for the twelve months ended December 31, 2016 increased by $5.4 billion to $33.2 billion compared to the same period in 2015. Premiums and deposits for the three months ended December 31, 2016 were $8.7 billion compared to $6.1 billion for the same quarter last year, primarily due to new reinsurance agreements and higher fund management sales in Ireland.
- Fee and other income for the twelve months ended December 31, 2016 increased by $75 million to $1,296 million compared to the same period in 2015. Fee and other income for the three months ended December 31, 2016 increased by $13 million to $340 million compared to the same quarter last year, primarily due to higher management fees and from other income.
- Market volatility continues following the U.K.'s June 23, 2016 vote to leave the European Union, most notably resulting in a weaker British pound and higher U.K. equity markets. The Company remains committed to its operations in the U.K. which are strong and are primarily domestic businesses with well-diversified investment portfolios. The Company will continue to work closely with customers, business partners and regulators over the next few years as the U.K. and the EU enter a period of negotiation and agree on their new relationship. The Company's other European businesses may also see some impacts arising from the market uncertainty in Europe from Brexit, but the impacts are not currently expected to be significant.
- In Europe, Solvency II regulations have been effective throughout 2016. All of the Company's regulated European-based subsidiaries have met the new requirements. The new governance regime focuses on more active and risk-focused Board of Directors involvement, which fits well with the Company's existing philosophy and culture. The capital regime has moved from a factor-based approach to a more risk-based methodology, which is more sensitive to interest rate movements. In 2016, the Company effectively managed capital volatility under the new regulations. Transitional measures and other measures approved by the regulators for long-term guaranteed business act to reduce the impact of current market volatility on Solvency II regulatory capital.
- On August 1, 2016, the Company completed the acquisition of Aviva Health Insurance Ireland Limited (Aviva Health), an Irish health insurance company, and assumed control of GloHealth Financial Services Limited (GloHealth), where the Company recorded a gain of $24 million, to reflect the fair value of the GloHealth investment. The Company operates the new Irish health insurance business under the Irish Life Health brand. The Company has set annual cost savings targets of €16 million pre-tax to be achieved through operating efficiencies from the combination of the businesses. Integration activities, with an expected cost of €16 million pre-tax, are anticipated to be completed in the next 18 to 24 months. For the three and twelve months ended December 31, 2016, these costs have decreased net earnings by nil and €8 million, respectively. For the three and twelve months ended December 31, 2016, annualized synergies achieved have been €3 million and €4 million, respectively.
- Subsequent to December 31, 2016, in January 2017 the Company agreed to sell its 30.43% ownership of Allianz Ireland to a subsidiary of Allianz SE. The transaction is expected to be complete in the first quarter of 2017 and is subject to court approval. The impact of the transaction on net earnings is not expected to be material. Refer to note 5 in the Company's December 31, 2016 annual consolidated financial statements for further details on the Company's investment in Allianz Ireland.
- During the fourth quarter of 2016, the Company received a number of awards:
    - Canada Life International, a subsidiary of Canada Life in the U.K., received a number of awards at the 2016 International Fund & Product Awards, including Best International Life Group (U.K.) and Best International Portfolio Bond.
    - Canada Life achieved '5 stars' in the 2016 Financial Adviser Service Awards in both the 'Life and Pensions' and 'Investment Providers and Packagers' categories.

- At the 2016 Irish Pension Awards:
    - the Irish Life Corporate business won the Communications award;
    - ILIM won Passive Manager of the Year; and
    - Setanta was awarded Equities Manager of the Year, for the fifth consecutive year.

BUSINESS UNITS – EUROPE

INSURANCE & ANNUITIES

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Premiums and deposits[1]	**$ 4,984**	$ 5,325	$ 4,497	**$ 22,276**	$ 22,127
Sales[1]	**4,410**	4,645	3,917	**19,179**	19,485
Fee and other income	**333**	324	320	**1,276**	1,197
Net earnings	**225**	251	234	**927**	886

(1) For the three and twelve months ended December 31, 2016, premiums and deposits and sales exclude $0.4 billion and $7.5 billion, respectively, of assets managed for other business units within the Lifeco group of companies ($0.2 billion for the three months ended September 30, 2016).

Premiums and deposits
Premiums and deposits for the fourth quarter of 2016 increased by $0.5 billion to $5.0 billion compared to the same quarter last year. The increase was primarily due to higher fund management sales, partially offset by lower wealth management sales in the U.K. and the impact of currency movement.

For the twelve months ended December 31, 2016, premiums and deposits were $22.3 billion compared to $22.1 billion for the same period last year, which included two large sales in 2015. Excluding the impact of these two large sales, premiums and deposits increased by $5.3 billion, primarily due to higher fund management sales and higher sales of payout annuities, partially offset by the impact of currency movement.

Premiums and deposits for the fourth quarter of 2016 decreased by $0.3 billion compared to the previous quarter, primarily due to lower payout annuities and fund management sales as well as the impact of currency movement, partially offset by higher pension sales in Germany.

Sales
Sales for the fourth quarter of 2016 increased by $0.5 billion to $4.4 billion compared to the same quarter last year, primarily due to the same reasons discussed for premiums and deposits for the same period.

For the twelve months ended December 31, 2016, sales decreased by $0.3 billion to $19.2 billion compared to the same period last year, which included two large sales in 2015. Excluding the impact of these two large sales, sales increased by $4.8 billion, primarily due to the same reasons discussed for premiums and deposits for the same period.

Sales for the fourth quarter of 2016 decreased by $0.2 billion from the previous quarter, primarily 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 2016 increased by $13 million to $333 million compared to the same quarter last year, primarily due to higher asset management fees and higher other income, which can be highly variable from quarter to quarter, partially offset by the impact of currency movement.

For the twelve months ended December 31, 2016, fee and other income increased by $79 million to $1,276 million compared to the same period last year. The increase was primarily due to higher investment gain related fee income associated with a closed block of Irish unit-linked business and higher other income as well as the impact of currency movement. The fee income on the closed block of Irish unit-linked business is particularly sensitive to market levels at the start and end of a reporting period.

Fee and other income for fourth quarter of 2016 increased by $9 million compared the previous quarter, primarily due to higher investment gain related fee income associated with a closed block of Irish unit-linked business and higher other income as well as the impact of currency movement.

Net earnings

Net earnings for the fourth quarter of 2016 decreased by $9 million to $225 million compared to the same quarter last year. The decrease was primarily due to less favourable morbidity experience, a higher percentage of earnings subject to lower rates of income tax in foreign jurisdictions in the prior year and the impact of currency movement. These decreases were partially offset by higher contributions from investment experience and favourable mortality experience in the U.K.

Net earnings for the twelve months ended December 31, 2016 increased by $41 million to $927 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, favourable mortality experience and lower income taxes. These increases were partially offset by less favourable morbidity experience and the impact of currency movement.

Net earnings for the fourth quarter of 2016 decreased by $26 million compared to the previous quarter, primarily due to lower contributions from insurance contract liability basis changes, partially offset by higher contributions from investment experience.

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 2016. 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 2017, work will continue refining the Company's internal risk models and management of capital volatility under the new regulations.

United Kingdom – The outlook for payout annuities in 2017 is stable with signs of further growth. Since April 2015, when changes to the U.K. budget became effective, individuals with defined contribution pensions have had greater flexibility for accessing their savings in retirement. As expected, some individuals have chosen to remain invested in the market while drawing a pension income rather than buying a payout annuity and the Company expects that the attractiveness of this guaranteed income will remain a key part of customers' retirement planning in the future. In the future, the Company sees the opportunity to grow its payout annuity business in line with the expected growth in the overall retirement market. The Company will look to further develop its presence in the bulk annuity market, where trustees want to insure pension annuities in payment. The Company will also continue to develop additional products for individuals who require additional pension flexibility. The overall size of the retirement market continues to grow as more retirees have defined contribution pensions due to the closure of defined benefit plans.

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 international and onshore market segments. The Company's distribution strategy for onshore will remain focused on IFAs. In the international wealth management segment, the outlook for 2017 is cautiously optimistic with an expectation that the market will start to grow once again, albeit slowly after a relatively stable 2016. The private banking business is expected to stabilize; however, the majority of the Company's business growth is expected to be through discretionary fund management wealth advisors, the retail market and through tax and estate planning products.

The outlook for the group risk operation remains positive and has benefited from additional risk benefits as a result of the U.K. Government's Pensions Auto Enrolment initiative in the workplace, which commenced October 2012 and will be complete in 2018. During 2015 and 2016, small employers began to enroll in this initiative and now present the operation with 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 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 have implemented the changes required by the legislation. The Company's group operations will continue to show pricing discipline, reflecting the low interest rate environment.

The Company has seen market volatility as a result of the Brexit vote, although this at present has benefited the U.K. stock market. It is anticipated that the current conditions will continue until further clarity is provided as to the commencement of the exit process and the respective negotiating positions become clearer. This uncertainty is expected to continue throughout 2017.

Ireland – Overall economic growth is expected to be robust in 2016 and 2017, with forecasts of GDP growth of 4.2% and 3.5%, respectively. These forecasts have been revised marginally downwards since the beginning of 2016, largely as a result of the U.K. referendum and other potential trade-related uncertainty. Uncertainty surrounding the U.K. and the weakening of British pound are likely to hinder Irish export growth in 2017.

Domestic sources of growth remain relatively robust. The labour market continues to improve and the unemployment rate is expected to fall to 6.8% by the end of 2017. Although the consumer sentiment index has not increased in recent months, the figure remains above the long-term average. This activity and consumer confidence are expected to favourably influence the retention and new activity measures of the Irish businesses. Irish Life is looking to maintain market share and improve profitability across its retail, corporate and investment management businesses following its multi-channel distribution strategy. Irish Life is also encouraging collaboration across the Company to capture synergies and extend its presence into new market segments.

In 2017, the new Irish health insurance businesses will operate under the Irish Life Health (ILH) brand. The economic drivers in Ireland have resulted in an increase in the Irish health insurance market in 2016 and ILH has marginally increased its share of this market to approximately 21%.

ILIM is the largest investment management firm in Ireland with a 47% share of the domestic market and continues to expand its business relationships in North America. ILIM now provides active equity management services to companies in the Lifeco group in Canada as well as Lifeco's affiliates, including Investors Group and Mackenzie Funds. ILIM will also continue to work with Putnam to build new distribution opportunities in the Irish market.

Germany – The outlook for the German business continues to be positive and the Company expects continued growth in assets under management in 2017.

Sales of pension unit-linked products have continued to grow significantly in 2016, with sales up 30% from 2015 levels and 79% from 2014 levels. In 2017, 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, following the introduction of Solvency II. 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 protection products have continued to grow in 2016, with sales up over 20% from 2015 levels and over 65% from 2014 levels. The Company expects the growth to continue in 2017.

REINSURANCE

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2016	Sept. 30 2016	Dec. 31 2015	**Dec. 31 2016**	Dec. 31 2015
Premiums and deposits	**$ 3,730**	$ 2,967	$ 1,559	**$ 10,902**	$ 5,636
Fee and other income	**7**	4	7	**20**	24
Net earnings	**86**	54	73	**277**	313

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 2016 were $3.7 billion compared to $1.6 billion for the same quarter last year. The increase was primarily due to new reinsurance agreements.

For the twelve months ended December 31, 2016, premiums and deposits increased by $5.3 billion to $10.9 billion compared to the same period last year. The increase was primarily due to new and restructured reinsurance agreements.

Premiums and deposits for the fourth quarter of 2016 were $3.7 billion compared to $3.0 billion for the previous quarter. The increase was primarily due to new reinsurance agreements.

Fee and other income
Fee and other income for the fourth quarter of 2016 of $7 million was comparable to the same quarter last year. A one-time fee in 2016 related to the completion of a reinsurance agreement was offset by certain life treaties being restructured in 2015, resulting in lower fee income on an ongoing basis.

For the twelve months ended December 31, 2016, fee and other income decreased by $4 million to $20 million compared to the same period last year. Certain life treaties were restructured in 2015 resulting in lower fee income on an ongoing basis.

Fee and other income for the fourth quarter of 2016 increased by $3 million compared to previous quarter, primarily due to the one-time fee discussed for the in-quarter results.

Net earnings
Net earnings for the fourth quarter of 2016 increased by $13 million to $86 million compared to the same quarter last year. The increase was primarily due to favourable morbidity experience and higher new business volumes, partially offset by lower contributions from insurance contract liability basis changes.

For the twelve months ended December 31, 2016, net earnings decreased by $36 million to $277 million compared to the same period last year. The decrease was primarily due to less favourable mortality experience for the traditional life business, partially offset by higher contributions from insurance contract liability basis changes and favourable morbidity experience. In addition, net earnings in 2015 were positively impacted by changes to certain income tax estimates, which did not recur in 2016.

Net earnings for the fourth quarter of 2016 increased by $32 million compared to the previous quarter, primarily due to favourable mortality experience and higher new business volumes, partially offset by lower contributions from insurance contract liability basis changes.

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. The incoming Presidential Administration in the U.S. has signaled the desire to repeal and replace the *Affordable Care Act*. At this point, the Company cannot determine what the impact may be on the health reinsurance market. Additionally, new U.S. regulatory rules (Principle-Based Reserving) 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 2017 and beyond. The Company's reinsurance operation is preparing to help European clients and other affiliated companies meet the capital challenges and business opportunities arising from these regulatory changes.

While the 2016 Atlantic hurricane season was the most active and costly since 2012, the Company expects 2017 pricing for the property and casualty market will continue to soften, although not as significantly as in previous years. Hedge fund capacity, collateralized covers and catastrophe bond issuance are expected to continue to grow in 2017, while buyer demand is under downward pressure due to increasing client retention. The primary focus for 2017 will be to continue to move further away from 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.

The net loss for the fourth quarter of 2016 of $4 million was comparable to the same quarter last year.

For the twelve months ended December 31, 2016, Europe Corporate had a net loss of $4 million compared to $25 million for the same period last year. Following the transaction to assume control of GloHealth in the third quarter of 2016, the Company reported a gain to reflect the fair value of the GloHealth investment, which increased net earnings by $24 million. Excluding this item, the net loss increased by $3 million, primarily due to lower restructuring costs. Included in the year-to-date results were $15 million of restructuring and acquisition costs primarily relating to Aviva Health and GloHealth, compared to $20 million of Irish Life and Legal & General International (Ireland) Limited restructuring costs for the same period in 2015.

The net loss for the three months ended December 31, 2016 was $4 million compared to net earnings of $8 million in the previous quarter. Excluding the fair value gain related to GloHealth discussed for the year-to-date results, the net loss decreased by $12 million, primarily due to restructuring and acquisition costs relating to Aviva Health and GloHealth in the third quarter of 2016, which did not recur.

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, 2016 of $12 million increased from a net loss of $7 million for the same quarter last year, primarily due to higher operating expenses.
For the twelve months ended December 31, 2016, Lifeco Corporate had a net loss of $26 million, an increase from a net loss of $16 million for the same period last year, primarily due to higher operating expenses and higher income taxes, driven by the impact of changes to certain income tax estimates in 2015.

The net loss for the three months ended December 31, 2016 of $12 million increased from a net loss of $6 million for the previous quarter, primarily due to higher operating expenses and lower net investment income. These increases were partially offset by the negative impact of changes to certain income tax estimates in the third quarter of 2016, which did not recur.

RISK MANAGEMENT

OVERVIEW

As a diverse financial services company, the effective management of risk is integral to the success of the Company's business. The Company has a prudent and measured approach to risk management. This approach is built on a strong risk culture and is guided by an integrated Enterprise Risk Management (ERM) Framework.

The Company's ERM Framework facilitates the alignment of business strategy with risk appetite, informs and improves the deployment of capital; and supports the identification, mitigation and management of exposure to possible operational surprises, losses and risks. The Company's Risk Function is responsible for the Risk Appetite Framework (RAF), the supporting risk policies and risk limit structure, and provides independent risk oversight across the Company's operations.

ENTERPRISE RISK MANAGEMENT FRAMEWORK

The Company's Board and Management Committees provide oversight of the ERM Framework which is comprised of four components: Risk Strategy and Culture, Risk Governance, Risk Appetite Framework and Limits and Risk Processes.

RISK STRATEGY AND CULTURE

The Company's business strategy is aligned with its risk strategy and risk appetite. The risk strategy supports the Company's main objectives to keep its commitments while growing shareholder value. The risk strategy requires: diversification of products and services, customers, distribution channels and geographies; a prudent and measured approach to risk-taking; conducting business with high standards of integrity; and generating consistent returns.
The risk strategy emphasizes the Company's strong culture of managing risk, which is strengthened by the role of the Board of Directors and senior management. This reflects the Company's commitment to placing the interests of its customers and the long-term strength of the Company at the centre of decision-making.

The Company’s culture emphasizes open communication, transparency and ethical behaviour.

RISK GOVERNANCE

Board of Directors

The Board of Directors is ultimately responsible for the Company’s risk governance and associated risk policies and annually approves the ERM Policy, RAF and Own Risk and Solvency Assessment (ORSA). The Board considers advice from the Risk Committee of the Board of Directors on risk oversight matters.

The Board of Directors addresses risk management and governance primarily through its Risk Committee. The Risk Committee's responsibilities include:

- Review and oversight of the ERM Policy and RAF;
- Review, approval and oversight of the credit, market, insurance, operational and other key risk policies;
- Approving the risk limit framework, associated risk limits and monitoring adherence to those limits;
- Evaluating the Company's risk culture;
- Discussing risks in aggregate and by type of risk;
- Reviewing Risk Function reports including stress testing and Dynamic Capital Adequacy Testing (DCAT);
- Reviewing the Own Risk and Solvency Assessment (ORSA);
- Reviewing and assessing the performance and compensation of the Company's Chief Risk Officer (CRO) and providing input on succession planning; and
- Reviewing and assessing the effectiveness of risk management across the Company including processes to ensure effective identification, measurement, management, monitoring and reporting on significant current and emerging risks.

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.

Senior Management Committees

The Executive Risk Management Committee (ERMC) is the key senior management committee that oversees all forms of risk and the implementation of the ERM Framework. Its responsibilities include reviewing compliance with the RAF, risk policies and risk standards. It also assesses the risk impact of business strategies, capital and financial plans, and material initiatives. The Board Risk Committee delegates authority for the approval and management of lower level risk limits to the ERMC.

The Company’s Chief Risk Officer (CRO) leads the Risk Function and chairs the ERMC. The following four enterprise-wide sub-committees, chaired by the Risk Function, report into the ERMC to provide advice and recommendations on each of the key risk categories:

- Market Risk Committee
- Credit Risk Management Committee
- Insurance Risk Committee
- Operational Risk Committee

The oversight responsibilities of the above committees include identification, measurement, management, monitoring and reporting of their respective risks.

Accountabilities

The Company has adopted a three lines of defense model in order to clearly segregate risk management and risk oversight responsibilities and applies the ERM Framework rigorously across the enterprise:

- **First Line:** Business units and support functions, including Investment Management, Human Resources, Information Services and Legal, 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 has overall responsibility for independent risk oversight and governance through developing and implementing the ERM framework. In this role, the Risk Function receives support from other control functions including Actuarial, Compliance and Finance; and
- **Third Line:** Internal Audit is responsible for independently assessing the adequacy of the design and operational effectiveness of the Company's ERM Framework.

The Company's CRO reports directly, both to the President and CEO and to the Board Risk Committee. The CRO is responsible for ensuring that the Risk Function is appropriately resourced and effective in executing its responsibilities. The accountabilities of the CRO include reporting on compliance with the ERM Policy and RAF as well as for escalating matters that require attention.

Regional ERMCs monitor all risk categories for businesses and operations within their respective business segments. Risk resources and capabilities are aligned with the Company's business segments and operating units. Further support is provided by centrally based risk areas of expertise.

Risk Management Policies

The Company has codified its procedures and operations related to risk management and oversight requirements in a set of guiding documents composed of risk policies, operating standards, and associated guidelines. This comprehensive documentation framework provides detailed and effective guidance across all risk management processes. These documents enable a consistent approach to risk management and oversight across the Company's businesses and are reviewed and approved regularly, in accordance with an established authority hierarchy, by the Board of Directors, the Board Risk Committee or a senior management committee. Similar policy structures have been developed and are maintained by each region.

RISK APPETITE FRAMEWORK AND LIMITS

A key component of the Company's ERM Framework is the Risk Appetite Framework (RAF). The RAF includes a Risk Appetite Statement that reflects the levels and types of risk that the Company is willing to accept to achieve its business objectives. 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 ensuring appropriate diversification and limiting exposure to more volatile lines of business;
- **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; and
- **Maintenance of the Company's Reputation:** the Company considers, across all business activities and operations, the potential impact on its reputation.

A comprehensive structure of risk limits and controls is in place across the Company. Enterprise risk limits are further broken down by business unit and risk type. The limit structure is accompanied by comprehensive limit approval and breach management processes to ensure effective governance and oversight of the RAF.

The Company and its subsidiaries are subject to various regulatory regimes. The capital requirements under these regulatory capital regimes are reflected in the development of risk limits.

RISK PROCESSES

Risk processes follow a cycle of: identification, measurement, management, monitoring and reporting and are designed to ensure both current and emerging risks are assessed against the RAF.

Risk identification 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, prioritized and addressed in all business initiatives and changes, including investment strategies, product design, significant transactions, annual planning and budgeting as well as potential business acquisitions and disposals.

The Company has processes in place to identify risk exposures on an ongoing basis and, where appropriate, develops mitigation strategies to proactively manage these risks. Effective risk management requires the selection and implementation of approaches to accept, reject, transfer, avoid or control risk, including mitigation plans. It is based on a control framework that includes risk limits, key risk indicators, stress and scenario testing to ensure appropriate escalation and resolution of potential issues in a timely manner.

Risk measurement provides the means to quantify and assess the Company's risk profile and monitor the profile against the risk limits. Any material new business development or change in strategy warrants an independent assessment of risk and potential impact on reputation, in addition to measurement of the impact on capital, earnings and liquidity. Stress and scenario testing is used to evaluate risk exposures against the risk appetite. Sensitivity testing of key risks is used to evaluate the impact of risk exposures independent of other risks. Scenario testing is used to evaluate the combined impact of multiple risk exposures.

A key responsibility of the Risk Function is to ensure that the risk appetite is applied consistently across the Company and that limits are established to ensure that risk exposures comply with the risk appetite and Company-wide risk policies.

Risk Monitoring, Reporting and Escalation

Risk monitoring relates to ongoing oversight and tracking of the Company's risk exposures, ensuring that the risk management approaches in place remain effective. Monitoring may also identify risk-taking opportunities.

Risk reporting presents an accurate and timely picture of existing and emerging risk issues and exposures as well as their potential impact on business activities. Reporting highlights the risk profile relative to the risk appetite and associated risk limits.

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

RISK MANAGEMENT AND CONTROL PRACTICES

The Company's risk profile is impacted by a variety of risks and its risk management and independent oversight processes are tailored to the type, volatility and magnitude of each risk. The Company has defined specific risk management and oversight processes for risks, broadly grouped in the following categories:

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

MARKET AND LIQUIDITY RISK

Risk Description

Market risk is the risk of loss arising from potential changes in market rates and prices and from changes associated with future cash flows of the Company's business activities. Market risks include interest rate, equity market, real estate and foreign exchange rate risks. Liquidity risk is the risk that the Company cannot meet cash and collateral commitments as they fall due.

Market and Liquidity Risk Management

The Company's Market Risk Policy sets out the market risk management framework and provides the principles for market risk management. This policy is supported by a number of other policies and guidelines that provide detailed guidance.

An effective governance structure has been implemented for the management of market risk. The business units, including Investment Management, are the ultimate owners of market risk and as such have primary responsibility for the identification, measurement, management, monitoring and reporting of market risk. The Company has established a senior management committee to provide oversight of market risk, which includes completing reviews and making recommendations regarding risk limits, the risk policy and associated compliance, breach management and mitigation pertaining to market risk. Each region has established oversight committees and operating committees to help manage market risk within the region. The Company has developed risk limits, key risk indicators and measures to support the management of market and liquidity risk in compliance with the Company's RAF.

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 (e.g. using derivatives).

Risks and risk management activities associated with the broad market and liquidity risk categories are detailed below.

Interest Rate Risk

Interest rate and spread risk is the risk of loss resulting from the effect of the volatility and uncertainty of future interest rates and credit spreads on asset cash flows relative to liability cash flows and on assets backing surplus. The Company's principal exposure to interest rate risk arises from certain general fund and segregated fund products. The Company's Asset Liability Management (ALM) strategy has been designed to mitigate interest rate risks associated with general fund products, with close matching of asset cash flows and insurance and investment contract obligations. Products with similar risk characteristics are grouped together to ensure an effective aggregation and management of the Company's ALM positions. Asset portfolios backing liabilities are segmented to align with the duration and other characteristics (e.g. liquidity) of contract liabilities.

Crediting rates within general fund products are set prudently and a significant proportion of the Company's portfolio of crediting rate products includes pass-through features, which allow for the risk and returns to be shared with policyholders. Asset management and related products permit redemptions; however, the Company attempts to mitigate this risk by establishing long-term customer relationships, built on a strategic customer focus and an emphasis on delivering strong fund performance.

The Company has established dynamic hedging programs to hedge interest rate risk sensitivity associated with segregated fund and variable annuity guarantees. The hedging programs are designed to offset changes in the economic value of liabilities through the use of derivative instruments. The Company's approach to dynamic hedging of interest rate risk principally involves transacting in interest rate swaps. The hedge asset portfolios are dynamically rebalanced within approved thresholds and rebalancing criteria.

Where the Company's insurance and investment products have benefit or expense payments that are dependent on inflation (e.g. inflation-indexed annuities, pensions and disability claims), the Company generally invests in real return instruments to mitigate changes in the real dollar liability cash flows. Some protection against changes in the inflation index can be achieved, as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.

Equity Risk
Equity risk is the risk of loss resulting from the sensitivity of the values of assets, liabilities, financial instruments and fee revenue to changes in the level or in the volatility of prices of equity markets. The Company's principal exposure to equity risk arises from segregated funds and fee income associated with the Company's assets under management. Approved investment and risk policies also provide for general fund investments in equity markets within defined limits.

The Company has established dynamic hedging programs to hedge equity risk sensitivity associated with segregated fund and variable annuity guarantees. The hedging programs are designed to mitigate exposure to changes in the economic value of these liabilities through the use of derivative instruments. The Company's approach to dynamic hedging of equity risk principally involves the short selling of equity index futures. The hedge asset portfolios are dynamically rebalanced within approved thresholds and rebalancing criteria.

For certain very long-dated liabilities it is not practical or efficient to closely match liability cash flows with fixed-income investments. Certain long-dated asset portfolios therefore target an investment return sufficient to meet liability cash flows over the longer term. These segments are partially backed by a diversified portfolio of non-fixed income investments, including equity and real estate investments, in addition to long dated fixed-income instruments that provide duration.

Foreign Exchange Risk
Foreign exchange risk is the risk of loss due to changes in currency exchange rates. The Company's foreign exchange investment and risk management policies and practices are to match the currency of the Company's general fund investments with the currency of the underlying insurance and investment contract liabilities. To enhance portfolio diversification and improve asset liability matching, the Company may use foreign exchange derivatives to mitigate currency exchange risk to the extent this is practical through the use of forward contracts and swaps.

The Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations due to the movement of the Canadian dollar against these currencies. Such fluctuations affect the Company's financial results. The Company has exposures to the U.S. dollar resulting from the operations of Great-West Financial and Putnam in the United States segment and the Reinsurance business unit within the Europe segment; and to the British pound and the Euro resulting from operations in the U.K., the Isle of Man, Ireland and Germany in the Europe segment.

The Company has net investments in foreign operations. 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.

- A 5% appreciation (depreciation) of the average exchange rate of the Canadian dollar to each of the U.S. dollar, British pound and euro would decrease (increase) operating earnings in 2016 by $16 million, $38 million and $22 million, respectively.
- A 5% appreciation (depreciation) of the Canadian dollar spot rate compared to each of the U.S. dollar, British pound and euro spot rates would decrease (increase) the unrealized foreign currency translation losses, including the impact of instruments designated as hedges of net investments on foreign operations, in accumulated other comprehensive income (loss) of shareholders' equity by approximately $334 million, $247 million and $107 million, respectively, as at December 31, 2016.

Management may use forward foreign currency contracts and foreign denominated debt to mitigate the volatility arising from the movement of rates as they impact the translation of net investments in foreign operations. The Company uses non-IFRS financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation on financial results.

Liquidity Risk
Liquidity risk arises from the Company's inability to generate the necessary funds to meet its on-and-off balance sheet obligations as they come due.

The Company's liquidity risk framework and associated limits are designed to ensure that the Company can meet cash and collateral commitments as they fall due, both on an expected basis and under a severe liquidity stress.

In the normal course of certain Reinsurance business, the Company provides Letters of Credit (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 it is unable to renew existing LOCs at maturity. The Company 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. The Company staggers the maturities of LOCs to reduce the renewal risk.

Liquidity	December 31	
	2016	2015[1]
Cash, cash equivalents and short-term bonds	**$ 7,874**	$ 7,056
Other liquid assets and marketable securities		
Government bonds	**36,873**	36,584
Corporate bonds	**43,044**	43,140
Common/Preferred shares (public)	**7,989**	7,054
Residential mortgages - insured	**3,652**	3,704
	$ 91,558	$ 90,482
Total	**$ 99,432**	$ 97,538

Cashable liability characteristics	December 31	
	2016	2015
Surrenderable insurance and investment contract liabilities		
At market value	**$ 20,369**	$ 19,641
At book value	**49,751**	47,403
Total	**$ 70,120**	$ 67,044

(1) Comparative figures have been reclassified for presentation purposes.

The carrying value of the Company's liquid assets and marketable securities is approximately $99.4 billion or 1.4 times the Company's surrenderable insurance and investment contract liabilities. The Company believes that it holds adequate and appropriate liquid assets to meet anticipated cash flow requirements as well as to meet cash flow needs under a severe liquidity stress.

The majority of 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 encourage holders of certain types of policies to terminate their policies, thereby placing demands on the Company's liquidity position.

CREDIT RISK

Risk Description

Credit risk is the risk of loss arising from an obligor's potential inability or unwillingness to fully meet its contractual obligations. Exposure to credit risk occurs any time funds are extended, committed or invested through actual or implied contractual agreements. The Company is exposed to the credit risk of issuers of securities held in the Company's general fund and pension plans (e.g. bonds, mortgages, structured securities), and to the credit risk of reinsurance and derivative counterparties.

Credit exposure resulting from the purchase of fixed-income securities, which are primarily used to support policyholder liabilities, is considered to be a core business risk that is appropriately factored into the Company's risk appetite. The Company manages financial contracts with counterparties which may result in counterparty credit risk related to the mitigation of insurance risk, through reinsurance agreements, and market risk, through derivative contracts. Credit risk arising from both sources is included in the Company's measurement of its credit risk profile.

Credit Risk Management

The Company's credit risk management framework focuses on minimizing undue concentration within issuers, connected companies, industries or individual geographies by emphasizing diversification as well as by limiting new exposures to investment grade assets as per the Company's Investment Policy. Diversification is achieved through the establishment of appropriate limits and transaction approval authority protocols. The Company's approach to credit risk management includes the continuous review of its existing risk profile relative to the RAF as well as to the projection of potential changes in the risk profile under stress scenarios.

Effective governance of credit risk management is enabled with the involvement of dedicated senior management committees, experienced credit risk personnel, and with the guidance of appropriate credit risk policies, standards and processes. For credit risk, the Investment Committee of the Board of Directors (Investment Committee) is responsible for the approval of investment decisions of significant size or level of complexity, and oversight of the Company's global investment strategy, including compliance with investment limits and policies as well as breach management. Additionally, the Investment Committee reviews the Company's investment policies, procedures, guidelines, and corresponding limits to ensure that investment decisions are in compliance with the Company's RAF. The Risk Committee advises the Board of Directors on credit risk oversight matters and approves and monitors compliance with credit risk policies and limits. The Risk Committee also provides oversight of the Credit Risk Management Policy and related processes, and is responsible for ensuring compliance with the Company's RAF.

The Investment Committee and Risk Committee are supported by senior management committees. The Global Management Investment Review Committee (GMIRC) and the Management Investment Review Committees (MIRCs) for each regional business segment review and approve new investments and manage credit risk across invested assets and counterparties. The Credit Risk Management Committee (CRMC), is the ERMC sub-committee responsible for providing global oversight of credit risk management activities, including credit risk limit approval and breach management processes, and credit risk policy compliance.

The Company has established business-segment specific Investment and Lending Policies, including investment limits for each asset class, which are approved by the Investment Committee. These policies and limits are complemented by the Credit Risk Policy which describes credit risk management processes and identifies the role of the Risk Function in the oversight of credit risk, including the setting and monitoring of aggregate risk limits, and the approval and escalation of exceptions.

The Company identifies credit risk through an internal credit risk rating system which includes a detailed assessment of an obligor's creditworthiness based on a thorough and objective analysis of business risk, financial profile, structural considerations and security characteristics including seniority and covenants. Credit risk ratings are expressed using a 22-point scale that is consistent with those used by external rating agencies. In accordance with the Company's policies, internal credit risk ratings cannot be higher than the highest rating provided by certain independent ratings companies. The Risk Function reviews and approves the credit risk ratings assigned by Investment Management for all new investments, and reviews the appropriateness of ratings assigned to outstanding exposures.

The Risk Function assigns credit risk parameters (probabilities of default, rating transition rates, loss given defaults, exposures at default) to all credit exposures in order to measure the Company's aggregate credit risk profile. In addition, the Risk Function establishes limits and processes, performs stress and scenario testing (using stochastic and deterministic scenarios) and assesses compliance with the limits established in the RAF. It regularly reports on the Company's credit risk profile to executive management, the Board of Directors and various committees at enterprise, regional and legal entity levels.

Investment Management and the Risk Function are independently responsible for the monitoring of exposures relative to limits as well as for the management and escalation of risk limit breaches as they occur. The Investment Management Function is also responsible for the continuous monitoring of its portfolios for changes in credit outlook, and performs regular credit reviews of all relevant obligors and counterparties, based on a combination of bottom-up credit analysis and top-down views on the economy and assessment of industry and sub-sector outlooks. Watch Lists are also used at the regional business segment levels to plan and execute the relevant risk mitigation strategies.

The Risk Function oversees monitoring, breach management and escalation activities, and has developed risk limits, key risk indicators (KRIs) and risk budgets to act as early warnings against unacceptable levels of concentration and to support the management of credit risk limits in compliance with the Company's RAF.

Counterparty Risk

Through reinsurance arrangements, the Company cedes insurance risk in order to mitigate insurance risk. 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. The Company seeks to minimize reinsurance credit risk by setting rating based limits on net ceded exposure by counterparty as well as seeking protection in the form of collateral or funds withheld arrangements where possible.

The Company uses derivatives for risk mitigation purposes. Derivative products are traded through exchanges or with counterparties approved by the Board of Directors or the Investment Committee. The Company seeks to mitigate derivative credit risk by setting rating based counterparty limits in its investment policies and through collateral arrangements where possible. In addition, the Company includes potential future exposure of derivatives in its measure of total exposure against single name limits.

INSURANCE RISK

Risk Description

Insurance risk is the risk of loss resulting from adverse changes in experience associated with contractual promises and obligations made under insurance contracts. Insurance risk includes uncertainties around the ultimate amount of net cash flows (premiums, commissions, claims, payouts and related settlement expenses), the timing of the receipt and payment of these cash flows, as well as the impact of policyholder behaviour (e.g. lapses).

The Company identifies six broad categories of insurance risk, which may contribute to financial losses: mortality risk, morbidity risk, longevity risk, lapse risk, expense risk and property damage risk. Mortality risk, morbidity risk and longevity risk are core business risks and the exchange of these risks into value is a core business activity. Lapse risk and expense risk associated with offering the core products are accepted as a consequence of the business model and mitigated where appropriate. Property damage risk is a non-core business risk for which the Company takes extra measures to manage and mitigate.

Insurance Risk Management

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 effectively, the insurer must design and price products so that the premiums received, and the investment income earned on those premiums, will be sufficient to pay future claims and expenses associated with the product. This requires the insurer, in pricing products and establishing insurance contract liabilities, to make assumptions regarding expected levels of income, claims and expenses and how policyholder behaviours and market risks might impact these assumptions. Insurance contract liability valuation requires regular updating of assumptions to reflect emerging experience. Insurance contract liabilities are established to fund future claims and include a provision for adverse deviation, set in accordance with professional actuarial standards.

An effective governance structure has been implemented for the management of insurance risk. Business units are the ultimate owners of insurance risk and as such have primary responsibility for the identification, measurement, management, monitoring and reporting of insurance risk. The Risk Function, supported by Corporate Actuarial, is primarily responsible for oversight of the insurance risk management framework. The Company has established the Insurance Risk Committee to provide oversight of insurance risk, which includes completing reviews and making recommendations regarding risk limits, the risk policy and associated compliance, breach management and mitigation pertaining to insurance risk. Each region has established oversight committees and operating committees to help manage insurance risk within the region.

The Company's Insurance Risk Policy sets out the insurance risk management framework and provides the principles for insurance risk management. This policy is supported by a number of other policies and guidelines that provide detailed guidance, including:

- Corporate Product Design and Pricing Risk Management Policy and Corporate Reinsurance Ceded Risk Management Policy, which provide guidelines and standards for the product design and pricing risk management processes and reinsurance ceded risk management practices;
- Corporate Actuarial Valuation Policy, which provides documentation and control standards consistent with the valuation standards of the Canadian Institute of Actuaries; and
- Participating Account Management Policies and Participating Policyholder Dividend Policies, which govern the management of participating accounts and provide for the distribution of a portion of the earnings in the participating account as participating policyholder dividends.

The Risk Function in conjunction with Corporate Actuarial implements a number of processes to carry out its responsibility for oversight of insurance risk. It reviews the Insurance Risk Policy relative to current risk exposures and updates it as required. It reviews insurance risk management processes carried out by the business units, including product design and pricing, underwriting, claims adjudication, and reinsurance ceding, and provides challenge as required. The Risk Function works with the business units and other oversight functions to ensure that current and emerging insurance risks are identified and that appropriate action is taken if required. Insurance risk limits, risk budgets and key risk indicators are set to keep the insurance risk profile within the Company's appetite for insurance risk and the Risk Function regularly monitors the insurance risk profile relative to these measures. Any breaches would be escalated as required and appropriate remediation would be implemented. The Risk Function performs stress testing and does analysis of insurance risks, including review of experience studies. It provides regular reporting on these activities to the business units, senior management, and risk oversight committees.

Risks and risk management activities associated with the broad insurance risk categories are detailed below.

Mortality and Morbidity Risk

Mortality risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance contract liabilities.

Morbidity risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of disability, health, dental, critical illness and other sickness rates, where an increase in the incidence rate or a decrease in the disability recovery rate leads to an increase in the value of insurance contract liabilities.

There is a risk that the Company will mis-estimate the level of mortality or morbidity, or accept customers who generate worse mortality and morbidity experience than expected.

The Company employs the following practices to manage its mortality and morbidity risk:

- Research and analysis is done regularly to provide the basis for pricing and valuation assumptions to properly reflect the insurance and reinsurance risks in markets where the Company is active.
- Underwriting limits, practices and policies control the amount of risk exposure, the selection of risks insured for consistency with claims expectations and support the long-term sustainability of the Company.
- The insurance contract liabilities established to fund future claims include a provision for adverse deviation, set in accordance with professional standards. This margin is required to provide for the possibilities of mis-estimation of the best estimate and/or future deterioration in the best estimate assumptions.
- The Company sets 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 where appropriate.
- For Group life products, exposure to a concentrated mortality event due to concentration of risk in specific locations for example, could have an impact on financial results. To manage the risk, concentrations are monitored for new business and renewals. The Company may impose single-event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive.
- Effective plan design and claims adjudication practices, for both morbidity and mortality risks are critical to the management of the risk. As an example, for Group healthcare products, inflation and utilization will influence the level of claims costs, which can be difficult to predict. The Company manages the impact of these and similar factors through plan designs that limit new costs and long-term price guarantees and include the ability to regularly re-price for emerging experience.
- The Company manages large blocks of business, which, in aggregate, are expected to result in relatively low statistical fluctuations in any given period. For some policies, these risks are shared with the policyholder through adjustments to future policyholder charges or in the case of participating policies through future changes in policyholder dividends.

Longevity Risk

Longevity risk is the risk of loss resulting from adverse changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance contract liabilities. Annuities and some segregated fund products with Guaranteed Minimum Withdrawal Benefits are priced and valued to reflect the life expectancy of the annuitant. There is a risk that annuitants could live longer than was estimated by the Company, which would increase the value of the associated insurance contract liabilities.

Business is priced using mortality assumptions which take into account recent Company and industry experience and the latest research on expected future trends in mortality.

Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk as appropriate. The Company has processes in place to verify annuitants’ eligibility for continued income benefits. These processes are designed to ensure annuity payments accrue to those contractually entitled to receive them and help ensure mortality data used to develop pricing and valuation assumptions is as complete as possible.

Lapse Risk

Lapse risk is the risk of loss resulting from adverse changes in the level or volatility of the rates of policy lapses, terminations, renewals and/or surrenders.

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.

Business is priced using policy termination assumptions which take into account product designs and policyholder options, recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated for new policies as necessary.

The Company also incorporates early surrender charges into certain contracts and incorporates commission chargebacks in its distribution agreements to reduce unrecovered expenses.

Policyholder taxation rules in many jurisdictions help encourage the retention of insurance coverage.

Expense Risk

Expense risk is the risk of loss resulting from adverse variability of expenses incurred with fee-for-service business or in servicing and maintaining insurance, savings or reinsurance contracts, including direct expenses and allocations of overhead costs.

Expense management programs are regularly monitored to control unit costs while maintaining effective service delivery.

Property Damage Risk

Property damage risk is the risk of loss resulting from adverse changes in property damage experience and is mainly related to extreme or catastrophic events.

The reinsurance business in particular has exposure to natural catastrophic events that result in property damage. As a retrocessionaire for property catastrophe risk, the Company generally participates at more remote event-loss exposures than primary carriers and reinsurers. Generally, an event of significant size must occur prior to the Company incurring a claim. The Company limits the total maximum claim amount under all property catastrophe contracts. The Company monitors cedant companies' claims experience and research from third party expert risk models on an ongoing basis and incorporates this information in pricing models to ensure that the premium is adequate for the risk undertaken.

OPERATIONAL RISK

Risk Description

Operational Risk is the risk of loss arising from potential problems relating to internal processes, people and systems or from external events. Operational risk can result from either normal day-to-day operations or a specific unanticipated event. Operational risks include legal and regulatory, human resources, infrastructure, fraud and supplier risks. In addition to operational risks, the Company also manages reputational risk, which can emerge across many businesses and risk types; therefore, reputational considerations are incorporated within each aspect of the Company's business and risk management practices.

Operational Risk Management

While operational risks can be mitigated and managed, they remain an inherent feature of the business model, as multiple processes, systems, and stakeholders are required to interact across the enterprise on an ongoing basis. The Company actively manages operational risk across the enterprise in order to maintain a strong reputation and standing, maintain financial strength and protect value. On-going engagement of businesses and support functions across the enterprise through robust training and communications is regularly undertaken for identifying, assessing and mitigating operational risk issues.

Operational Risk Management governance and oversight reflects a combined effort between business units and oversight functions. This combined effort is particularly critical for management of operational risk, and it is a key factor for ensuring the Company remains within its Risk Appetite. The Risk Function is responsible for development of operational risk management policies and operating standards as well as overseeing operational risk management activities performed in the first line of defense. The Operational Risk Committee has the primary mandate to provide risk oversight for Operational Risk across the enterprise. In addition, each regional business segment has established operating committees to oversee operational risk management within their business.

The Company has an Operational Risk Policy, that is supported by standards and guidelines that relate to specialized functions, detailing practices related to stress testing, modeling, fraud, risk data aggregation and risk reporting, regulatory and information technology risk management. The Company implements controls to manage operational risk through integrated policies, procedures, processes and practices, with consideration given to the cost/benefit trade-off. Processes and controls are monitored and refined by the business areas and periodically reviewed by the Company's Internal Audit department. Financial reporting processes and controls are further examined by external auditors.

The Company also manages operational risks through the corporate insurance program which transfers a portion of the operational risk exposure by purchasing insurance coverage that provides protection against unexpected material losses resulting from events such as property loss or damage and liability exposures. As well, the Company purchases 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 risk profile, risk appetite and tolerance for the associated risks.

The Company employs a combination of operational risk management methods including risk and control assessments, internal control factors and risk events analyses. For the identification of operational risks, the Company utilizes Risk and Control Assessments which systematically identify and assess potential operational risks and associated controls. Scenario analysis is employed to identify and quantify potential severe operational risk exposures. Key risk indicators, risk appetite preferences, and other processes are leveraged to measure, manage and monitor operational risks. Internal and external operational risk events are analyzed to identify root causes and provide insights into potential new operational risks that could impact the Company.

The Risk Function monitors the status of actions being undertaken to remediate risks to ensure that risk exposures are mitigated in a timely manner and has processes in place to escalate significant matters to senior management to inform and enable management to take appropriate action when needed. The Risk Function regularly reports on the Company's operational risk profile to executive management, the Board of Directors and various committees at enterprise, regional and legal entity levels.

Key operational risks and the Company's approach to managing them are outlined below.

Legal and Regulatory Risk

Legal and regulatory risk arises from non-compliance with specific local or international rules, laws, and regulations, prescribed practices, or ethical standards as well as civil or criminal litigation against the Company. As a multi-national company, the Company and certain of its subsidiaries are subject to extensive legal and regulatory requirements in Canada, the U.S., the U.K., Ireland and other jurisdictions. The requirements scope covers most aspects of the Company's operations including capital adequacy, liquidity and solvency, investments, the sale and marketing of insurance and annuity products, the business conduct of insurers, asset managers and investment advisors as well as reinsurance processes. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements could have a material adverse effect on the Company.

Legal and Regulatory risk is managed through coordination between first and second line of defense functions. The Company records, manages and monitors the regulatory compliance environment closely, leveraging the subject matter expertise of both local and enterprise-wide Compliance and Legal stakeholders and reporting on emerging changes that would have significant impact on the Company's operations or business.

Human Resources Recruitment and Retention Risk

Human Resources risks can arise from an inability to attract, retain, train and develop the right talent, ineffective governance practices or legal action related to discrimination, and can impact the ability of the Company to meet its business objectives. The Company maintains a highly skilled workforce that is reflective of the diverse cultures and practices of the countries in which the Company operates. Human resource programs, including competitive compensation programs, succession planning and assessing and addressing employee engagement, are in place to manage these risks.

Infrastructure Risk
Infrastructure Risk arises from reduced or non-availability of any aspect of a fully functioning business environment. This includes corporate facilities, physical assets, human resources and/or technology (technology assets, systems, applications, cloud computing), security (logical, physical and cyber), failures in license management and insufficient software/application support.

The ability to consistently and reliably obtain securities pricing information, accurately process client transactions and provide reports and other customer services is essential to the Company's operations. A failure of any of these services could have an adverse effect on the Company's results of operations and financial condition and could lead to loss of client confidence, harm to the Company's reputation, exposure to disciplinary action and liability to the Company's customers.

The Company maintains a resilient and secure environment by investing in and managing infrastructure that is sustainable and effective in meeting the Company's needs for a fully functioning and secure business operation that protects assets and stakeholder value. Infrastructure risk management programs include strong business continuity capabilities across the enterprise to manage short-term incidents or outages and the recovery of critical functions in the event of a disaster. In addition, security measures are designed to deny unauthorized access to facilities, equipment and resources, and to protect personnel and property from damage or harm (such as espionage, theft or terrorist attacks) and events that could cause serious losses or damage.

Technology and Cyber Risk
Technology and Cyber Risk is an integral component of Infrastructure Risk. Similar to other major financial institutions, the Company faces heightened technology and cyber risks due to its reliance on the internet and use of technologies to serve customers. The risks faced include the threat of corporate espionage, identity theft and hacking, including the risk of denial of service or ransomware attacks.

To remain resilient to such threats and to protect customers, brand and reputation, the Company continues to invest in capabilities to prevent, detect, respond and manage such cyber security threats. More specifically, the Company has established enterprise-wide cyber security programs, benchmarked capabilities to sound industry practices, and has implemented robust threat and vulnerability assessment and response capabilities.

Process Risk
Inadequate or failed business processes can adversely impact the Company's financial results, relationships with customers and reputation. Process risk includes risks arising from significant change management initiatives such as business model changes, major systems implementation, new product introductions and leadership changes.

Risk management ensures strategic alignment and congruency in all business activities, including change initiatives and business-as-usual activities, with the Company's operational risk appetite and considers the potential impact on the Company's reputation. Further, the Company seeks to control processes across the value chain through automation, standardization and process improvements to prevent or reduce operational losses.

Fraud Risk
Fraud can result in a financial loss or reputational impact to the Company. Fraud management is built around the principles of prevention, detection and response. The Company promotes a culture of honesty, integrity, transparency and fairness in its internal operations and further manages fiduciary responsibilities through the Company's Fraud Risk Management Policy and Code of Conduct. The Company maintains a strong set of controls designed to prevent fraud and employs sophisticated data analytics to detect fraud. A fraud response plan is in place to deal with events through a coordinated investigative strategy to ensure stakeholders and the interests of the Company are protected.

Supplier Risk
The Company strategically engages suppliers to maintain cost efficiency, to free internal resources and capital and to utilize skills, expertise and resources not otherwise available to the Company. The Company's profitability or reputation could be negatively impacted if suppliers do not meet Company standards for performance.

The Company utilizes a supplier risk management program to minimize risks when engaging suppliers and to provide effective oversight and monitoring throughout the entire supplier relationship. This program helps to ensure the arrangements, transactions and other interactions with suppliers meet standards for quality of service and risk management expectations.

OTHER RISKS

Conduct Risk
Conduct risk is the risk of unfair outcomes for customers as a result of inadequate or failed processes and/or inappropriate behaviours, offerings or interactions by the Company or its agents. Conduct risk may result in loss due to the cost of customer remediation, damage to reputation and/or regulatory fines.

The Company manages conduct risk by ensuring appropriate clarity of communications; applying sales and advice processes that are focused on fair outcomes to customers; seeking customer feedback; maintaining proper controls and adhering to Board-approved policies and processes. Conduct Risk is incorporated in risk management and compliance activities, including Risk and Control Assessments, internal events reporting, emerging risk assessments, and other measurement, monitoring and reporting activities.

Strategic Risk
Strategic risk arises as a result of failures of internal planning, ineffective strategic decision-making, major regulatory changes, macroeconomic or country risk events, or changes to the external environment manifesting over the medium to long term. In addition, strategic risk includes risks associated with the Company's holding company structure, potential future acquisitions and ongoing access to product distribution.

The Company manages strategic risk through proactive engagement, industry representation and a rigorous strategic planning process. The Risk Function is engaged in the business planning cycle to ensure business strategies are in alignment with the Company's Risk Appetite. The Company's strategic plan is reviewed with the Board of Directors and Senior Management, with the Risk Function providing objective assessment of enterprise strategic risks and risk mitigation plans. Significant risks and opportunities are identified, and a review of the alignment with risk strategy and qualitative risk preferences is completed. Initiatives, including those related to new markets, distribution channels, product design and investments, are also subject to independent risk review.

Holding Company Structure Risk
As a holding company, the Company's ability to pay interest, dividends and other operating expenses and to meet its obligations generally depends upon receipt of sufficient funds from its principal subsidiaries and its ability to raise additional capital. In the event of 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, 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.

Mergers and Acquisitions Risk

From time-to-time, the Company and its subsidiaries evaluate existing companies, businesses, products and services, and such review could result in the Company 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 the Company, including the common shares of the Company.

The Company undergoes extensive due diligence upon any consideration of acquiring or disposing of businesses or companies or offering new, or discontinuing existing, products and services. 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.

Product Distribution Risk

The Company's ability to market its products is significantly dependent on its access to a network of distribution channels and intermediaries. These intermediaries generally offer their clients products in addition to, and in competition with, the Company's products, and are not obligated to continue working with the Company. In addition, certain investors rely on consultants to advise them on the choice of advisor and the consultants may not always consider or recommend the Company. The loss of access to a distribution channel, the failure to maintain effective relationships with intermediaries or the failure to respond to changes in distribution channels could have a significant impact on the Company's ability to generate sales.

Product distribution risk is managed by maintaining a broad network of distribution relationships, with products distributed through numerous broker-dealers, managing general agencies, financial planners, banks and other financial institutions.

Environmental Risk

The Company may experience direct or indirect financial, operational or reputational impact stemming from environmental risk events, which include environmental issues, regulatory enforcement or costs associated with changes in environmental laws and regulations. The Company endeavors to respect the environment and to take a balanced and environmentally sustainable approach to conducting business. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of investment properties, loans secured by real property and investments in equity and fixed-income securities. These policies are approved by the Board of Directors and are reviewed annually.

EXPOSURES AND SENSITIVITIES

Insurance and Investment Contract Liabilities

The following illustrates the approximate impact to the Company's earnings that would arise as a result of changes to management's best estimate of certain assumptions used to determine the Company's insurance contract liabilities.

	Increase (decrease) in net earnings	
	2016	2015
Mortality - 2% increase	**$ (281)**	$ (282)
Annuitant mortality - 2% decrease	**$ (384)**	$ (314)
Morbidity - 5% adverse change	**$ (242)**	$ (225)
Investment returns		
Parallel shift in yield curve		
1% increase	**$ —**	$ —
1% decrease	**$ —**	$ —
Change in range of interest rates		
1% increase	**$ 149**	$ 109
1% decrease	**$ (491)**	$ (430)
Change in equity markets		
10% increase	**$ 43**	$ 45
10% decrease	**$ (50)**	$ (108)
Change in best estimate returns for equities		
1% increase	**$ 407**	$ 433
1% decrease	**$ (438)**	$ (457)
Expenses - 5% increase	**$ (117)**	$ (108)
Policy termination and renewal - 10% adverse change	**$ (608)**	$ (602)

Although the Company takes steps to anticipate and minimize risks in general, unforeseen future events may have a negative impact on the Company's business, financial condition and results of operations.

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 7 in the Company's December 31, 2016 annual consolidated financial statements for disclosure of the Company's financial instruments fair value measurement at December 31, 2016.

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 fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset, however, market price must be taken into consideration when evaluating impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish the estimated realizable value. For impaired available-for-sale bonds, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income (loss) is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as fair value through profit or loss are already recorded in 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 indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the event that certain conditions have been met, the Company would be required to reverse the impairment charge or a portion thereof.

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

The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use, 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 liabilities for insurance contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

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

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

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

Mortality – A life insurance mortality study is carried out 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 $281 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 $384 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 $242 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 addition, insurance contract liabilities also include an amount for incurred but not reported losses, which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in net earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns – The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries' prescribed scenarios. Given the continuing low interest rates experienced over the past several years, the Actuarial Standards Board has indicated a plan to revisit the reinvestment assumptions in 2017. While the magnitude of any potential changes is uncertain, the Company expects the change to be more modest than the changes included in the sensitivity disclosure that follows.

The range of interest rates covered by these provisions is set in consideration of long-term historical results and is monitored quarterly with a full review annually. An immediate 1% parallel shift in the yield curve would not have a material impact on the Company's view of the range of interest rates to be covered by the provisions. If sustained, however, the parallel shift could impact the Company's range of scenarios covered.

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

- The effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios 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.

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

- The 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 $202 million causing an increase in net earnings of approximately $149 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 $677 million causing a decrease in net earnings of approximately $491 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 $51 million, causing an increase in net earnings of approximately $43 million.
- A 10% decrease in equity values would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $61 million, causing a decrease in net earnings of approximately $50 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 $504 million causing an increase in net earnings of approximately $407 million.
- A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $552 million causing a decrease in net earnings of approximately $438 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 $117 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 $608 million.

Utilization of elective policy options – There are a wide range of elective options embedded in the policies issued by the Company. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee re-sets (segregated fund maturity guarantees). The assumed rates of utilization are based on company or industry experience when it exists and 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 dependants. 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 23 in the Company's December 31, 2016 annual consolidated financial statements.

For the defined benefit plans of the Company's subsidiaries, service costs and net interest costs are recognized in the Consolidated Statements of Earnings. Service costs include current service cost, administration expenses, past service costs and the impact of curtailments and settlements. 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**	
	2016	2015	**2016**	2015
Actuarial assumptions used to determine benefit cost				
Discount rate - past service liabilities	**3.8 %**	3.5 %	**4.1 %**	3.9%
Discount rate - future service liabilities	**3.8 %**	3.6 %	**4.5 %**	4.0%
Rate of compensation increase	**3.2 %**	3.2 %	**—**	—
Future pension increases[(1)]	**1.5 %**	1.1 %	**—**	—
Actuarial assumptions used to determine defined benefit obligation				
Discount rate - past service liabilities	**3.3 %**	3.8 %	**3.8 %**	4.1%
Rate of compensation increase	**3.2 %**	3.2 %	**—**	—
Future pension increases[(1)]	**1.1 %**	1.5 %	**—**	—
Medical cost trend rates:				
Initial medical cost trend rate			**5.1 %**	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**	
	2016	2015	**2016**	2015
Defined benefit pension plans:				
Impact of a change to the discount rate	**$ (1,138)**	$ (1,026)	**$ 1,458**	$ 1,353
Impact of a change to the rate of compensation increase	**303**	314	**(264)**	(272)
Impact of a change to the rate of inflation	**550**	551	**(498)**	(536)
Other post-employment benefits:				
Impact of a change to assumed medical cost trend rates	**33**	34	**(28)**	(28)
Impact of a change to the discount rate	**(46)**	(44)	**56**	54

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

Funding – The Company's subsidiaries have both funded and unfunded pension plans as well as other post-employment benefit plans that are unfunded. The Company's subsidiaries' funded pension plans are funded to or above the amounts required by relevant legislation. During the year, the Company's subsidiaries contributed $190 million ($158 million in 2015) to the pension plans and made benefit payments of $19 million ($19 million in 2015) for post-employment benefits. The Company's subsidiaries expect to contribute $254 million to the benefit pension plans and make benefit payments of $19 million for post-employment benefits in 2017.

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 2016, 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 IFRS 11 *Joint Arrangements*, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 1 *Presentation of Financial Statements*, IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates and Joint Ventures* and *Annual Improvements 2012 - 2014 Cycle* effective January 1, 2016. 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 2016 and could impact the Company in future reporting periods, are set out in the following table:

New Standard	Summary of Future Changes
IFRS 17 - *Insurance Contracts* (exposure draft)	In June 2013, the IASB issued a revised IFRS 4, *Insurance Contracts* exposure draft proposing changes to the accounting for insurance contracts. The intent of the revised standard is to eliminate inconsistencies by providing a single principle based framework to account for all types of insurance contracts, including reinsurance. The new standard will also provide requirements for presentation and disclosure items to enhance comparability between entities. IFRS 17, *Insurance Contracts* will replace IFRS 4, *Insurance Contracts* in its entirety and is expected to be issued in the first half of 2017 with a proposed effective date of January 1, 2021. During 2016, at the request of the IASB, the Company participated in additional field testing of the exposure draft to address potential interpretation and operational challenges; the proposed standard differs significantly from the Company's current accounting and actuarial practices under the Canadian Asset Liability Method (CALM). The Company is actively monitoring developments in this area and will continue to measure insurance contract liabilities under current accounting and actuarial policies, including CALM, until IFRS for insurance contract measurement is issued and effective.
IFRS 4 - *Insurance Contracts*	In September 2016, the IASB issued an amendment to IFRS 4, *Insurance Contracts* (IFRS 4). The amendment "Applying IFRS 9, *Financial Instruments* with IFRS 4, *Insurance Contracts*" provides qualifying insurance companies with two options to address the potential volatility associated with implementing the IFRS 9, *Financial Instruments* (IFRS 9) standard before the new proposed insurance contract standard is effective. The two options are as follows: • *Deferral Approach* - provides the option to defer implementation of IFRS 9 until the year 2021 or the effective date of the new insurance contract standard, whichever is earlier, or • *Overlay Approach* - provides the option to recognize the volatility that could arise when IFRS 9 is applied within other comprehensive income, rather than profit or loss. The Company qualifies for the amendment and will be applying the deferral approach to allow adoption of both IFRS 9 and the new insurance contract standard simultaneously on January 1, 2021.
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: • classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset; • impairment based on an expected loss model; and • hedge accounting that incorporates the risk management practices of an entity. Due to applying the deferral method as noted above, the standard will be effective for the Company on January 1, 2021.

New Standard	Summary of Future Changes
IFRS 15 - *Revenue from Contracts with Customers*	In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers,* which 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. 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. In April 2016, an additional amendment to IFRS 15 was issued clarifying requirements of the standard and providing additional transitional relief for companies implementing the standard. The Company is evaluating the impact of the adoption of this standard. The Company does not anticipate a significant impact for the adoption of this standard; however, it is not possible as yet to provide a reliable estimate of the impact on the Company's financial statements.
IFRS 16 - *Leases*	In January 2016, the IASB issued IFRS 16, *Leases*, which introduces new guidance for identifying leases as well as a new right-of-use accounting model for lessees, replacing the operating and finance lease accounting models that currently exist. The new accounting model will generally require all lessees to recognize lease assets and liabilities on the balance sheet, initially measured at the present value of unavoidable lease payments for all leases with a maximum possible term of more than 12 months. In contrast to the significant changes for lessees, the new standard will retain many key aspects of the current lessor accounting model. The standard is effective January 1, 2019. The Company is evaluating the impact of the adoption of this standard, however it is not yet possible to provide a reliable estimate of the impact on the Company's financial statements.
IAS 40 - *Investment Property*	In December 2016, the IASB issued an amendment to IAS 40, *Investment Property* to clarify the requirements on transfers to, or from, investment property. The amendment is effective January 1, 2018. The Company is evaluating the impact of the adoption of this standard.
IFRS 2 - *Share-based Payment*	In June 2016, the IASB issued narrow scope amendments to IFRS 2, *Share-based Payments* clarifying how to account for certain types of share-based payment transactions. The amendment is effective January 1, 2018. The Company is evaluating the impact of the adoption of this amendment.
IFRIC 22 - *Foreign Currency Transactions and Advance Consideration*	In December 2016, the IASB issued IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration* that provides requirements about which exchange rate to use in reporting foreign currency transactions when payment is made or received in advance. The interpretation is effective January 1, 2018. The Company is evaluating the impact of the adoption of this interpretation.

New Standard	Summary of Changes
Annual Improvements 2014 - 2016 Cycle	In December 2016, the IASB issued *Annual Improvements 2014 - 2016 Cycle* as part of its ongoing process to efficiently deal with non-urgent narrow scope amendments to IFRS. Three amendments were included in this issue relating to IFRS 12, *Disclosure of Interests in Other Entities*, IFRS 1, *First-time Adoption of International Financial Reporting Standards* and IAS 28, *Investments in Associates and Joint Ventures.* The amendments to IFRS 12 are effective January 1, 2017, while the amendments to IFRS 1 and IAS 28 are effective January 1, 2018. Adoption of these amendments will not have an impact on the Company's consolidated financial statements.
IAS 7 - *Statement of Cash Flows*	In January 2016, the IASB issued an amendment to IAS 7, *Statement of Cash Flows* that requires additional disclosures to enable users of the financial statements to evaluate changes in liabilities arising from financing activities. The amendment is effective January 1, 2017. Adoption of this amendment will not have a significant impact on the Company's consolidated financial statements.
IAS 12 - *Income Taxes*	In January 2016, the IASB issued an amendment to IAS 12, *Income Taxes* that clarifies the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendment is effective January 1, 2017. Adoption of this amendment will not have an impact on the Company's consolidated financial statements.

OTHER INFORMATION

SELECTED ANNUAL INFORMATION

(in $ millions, except per share amounts)	Years ended December 31		
	2016	2015	2014
Total revenue	**$ 46,381**	$ 33,820	$ 39,181
Net earnings - common shareholders			
Net earnings	**2,641**	2,762	2,546
Net earnings per common share			
Basic	**2.668**	2.774	2.549
Diluted	**2.663**	2.768	2.546
Total assets			
Total assets	**$ 399,912**	$ 399,935	$ 356,709
Proprietary mutual funds and institutional net assets	**259,215**	252,480	216,271
Total assets under management	**659,127**	652,415	572,980
Other assets under administration	**589,291**	560,102	490,353
Total assets under administration	**$ 1,248,418**	$ 1,212,517	$ 1,063,333
Total liabilities	**$ 374,904**	$ 374,675	$ 334,812
Dividends paid per share			
Series F First Preferred	**1.4750**	1.4750	1.4750
Series G First Preferred	**1.3000**	1.3000	1.3000
Series H First Preferred	**1.21252**	1.21252	1.21252
Series I First Preferred	**1.1250**	1.1250	1.1250
Series L First Preferred	**1.41250**	1.41250	1.41250
Series M First Preferred	**1.450**	1.450	1.450
Series N First Preferred	**0.544000**	0.912500	0.912500
Series O First Preferred(1)	**0.449219**	—	—
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(2)	**1.312500**	1.312500	0.799185
Common	**1.384**	1.304	1.230

(1) The Series O First Preferred Shares were issued on December 31, 2015.
(2) 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)	2016				2015			
	Q4[(2)]	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue[(1)]	**$ 7,678**	$ 13,408	$ 12,807	$ 12,352	$ 8,321	$ 8,596	$ 4,224	$ 12,679
Common shareholders								
Net earnings								
Total[(2)]	**676**	674	671	620	683	720	659	700
Basic - per share[(2)]	**0.686**	0.682	0.675	0.625	0.688	0.724	0.661	0.702
Diluted - per share[(2)]	**0.685**	0.681	0.674	0.623	0.686	0.722	0.659	0.700

(1) Revenue includes the changes in fair value through profit or loss on investment assets.
(2) Net earnings for the fourth quarter of 2016 include restructuring costs relating to a realignment of the Asset Management business unit. Excluding the impact of these restructuring costs, net earnings for the fourth quarter of 2016 were $696 million or $0.707 per common share ($0.706 diluted).

Lifeco's consolidated net earnings attributable to common shareholders were $676 million for the fourth quarter of 2016 compared to $683 million reported a year ago. On a per share basis, this represents $0.686 per common share ($0.685 diluted) for the fourth quarter of 2016 compared to $0.688 per common share ($0.686 diluted) a year ago.

Total revenue for the fourth quarter of 2016 was $7,678 million and comprises premium income of $8,905 million, regular net investment income of $1,507 million, a negative change in fair value through profit or loss on investment assets of $3,943 million and fee and other income of $1,345 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, 2016 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, 2016 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 and Putnam enter into various transactions with related companies, which include providing insurance benefits and sub-advisory services to other companies within the Power Financial 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.

Segregated funds of the Company were invested in funds managed by Investors Group and Mackenzie Investments. The Company also has interests in mutual funds, open-ended investment companies and unit trusts. Some of these funds are managed by related parties of the Company and the Company receives management fees related to these services.

At December 31, 2016 the Company held $42 million ($43 million in 2015) of debentures issued by IGM.

During the normal course of business in 2016, the Company purchased residential mortgages of $184 million from IGM ($206 million in 2015).

In October 2016, the Company made an investment in Portag3 Ventures which invests in the FinTech sector. The investment is a corporate partnership with Power Financial Corporation and IGM.

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, 2016 and December 31, 2015, there were no significant outstanding loans or guarantees and no loans or guarantees issued during 2016 or 2015 with related parties. There were no provisions for uncollectible amounts from related parties during 2016 or 2015.

TRANSLATION OF FOREIGN CURRENCY

Through its operating subsidiaries, Lifeco conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the U.S. dollar, the British pound and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the reporting period. All income and expense items are translated at an average rate for the period. The rates employed are:

Translation of foreign currency **Period ended**	**Dec. 31 2016**	Sept. 30 2016	June 30 2016	Mar. 31 2016	Dec. 31 2015	Sept. 30 2015	June 30 2015	Mar. 31 2015
United States dollar								
Balance sheet	**$ 1.34**	$ 1.31	$ 1.30	$ 1.30	$ 1.38	$ 1.34	$ 1.25	$ 1.27
Income and expenses	**$ 1.33**	$ 1.31	$ 1.29	$ 1.37	$ 1.34	$ 1.31	$ 1.23	$ 1.24
British pound								
Balance sheet	**$ 1.66**	$ 1.71	$ 1.72	$ 1.87	$ 2.04	$ 2.02	$ 1.96	$ 1.88
Income and expenses	**$ 1.66**	$ 1.71	$ 1.85	$ 1.96	$ 2.03	$ 2.03	$ 1.89	$ 1.88
Euro								
Balance sheet	**$ 1.42**	$ 1.47	$ 1.44	$ 1.48	$ 1.50	$ 1.50	$ 1.39	$ 1.36
Income and expenses	**$ 1.44**	$ 1.46	$ 1.46	$ 1.51	$ 1.46	$ 1.46	$ 1.36	$ 1.40

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.