

Condensed Consolidated Balance Sheets

(unaudited) [in millions of Canadian dollars]	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	6,041	5,903
Investments [Note 5]		
Bonds	122,864	120,590
Mortgage loans	32,120	30,088
Shares	10,448	10,142
Investment properties	5,098	4,851
Loans to policyholders	8,611	8,280
	179,141	173,951
Funds held by ceding insurers	9,581	9,893
Reinsurance assets [Note 8]	6,095	5,045
Investments in jointly controlled corporations and associates [Note 6]	5,421	5,154
Owner-occupied properties and capital assets	1,826	1,734
Derivative financial instruments	413	424
Other assets	9,128	8,664
Deferred tax assets	1,016	1,023
Intangible assets	5,671	6,288
Goodwill	10,390	10,085
Investments on account of segregated fund policyholders [Note 7]	221,117	217,357
Total assets	455,840	445,521
Liabilities		
Insurance contract liabilities [Note 8]	163,898	159,524
Investment contract liabilities [Note 8]	1,769	1,841
Obligations to securitization entities	7,506	7,596
Debentures and other debt instruments [Note 9]	9,642	9,351
Derivative financial instruments	1,281	1,364
Other liabilities	11,230	9,903
Deferred tax liabilities	1,599	1,769
Insurance and investment contracts on account of segregated fund policyholders [Note 7]	221,117	217,357
Total liabilities	418,042	408,705
Equity		
Stated capital [Note 10]		
Non-participating shares	963	965
Participating shares	764	717
Retained earnings	11,686	11,427
Reserves	1,763	1,506
Total shareholders' equity	15,176	14,615
Non-controlling interests	22,622	22,201
Total equity	37,798	36,816
Total liabilities and equity	455,840	445,521

Condensed Consolidated Statements of Earnings

(unaudited) [in millions of Canadian dollars, except per share amounts]	Three months ended June 30,		Six months ended June 30,	
	2018	2017 [Note 3]	2018	2017 [Note 3]
Revenues				
Premium income				
Gross premiums written	9,006	8,781	18,294	19,254
Ceded premiums	(1,107)	(1,020)	(2,226)	(2,139)
Premium income, net	7,899	7,761	16,068	17,115
Net investment income				
Regular net investment income	1,623	1,692	3,449	3,184
Change in fair value through profit or loss	(349)	301	(1,834)	1,035
Net investment income	1,274	1,993	1,615	4,219
Fee income	2,223	2,141	4,392	4,190
Other revenues	213	214	390	394
Total revenues	11,609	12,109	22,465	25,918
Expenses				
Policyholder benefits				
Insurance and investment contracts				
Gross	7,742	7,415	15,738	16,010
Ceded	(596)	(500)	(1,221)	(1,110)
Total net policyholder benefits	7,146	6,915	14,517	14,900
Policyholder dividends and experience refunds	442	462	900	1,020
Change in insurance and investment contract liabilities	(32)	850	(1,081)	2,169
Total paid or credited to policyholders	7,556	8,227	14,336	18,089
Commissions	851	876	1,715	1,953
Operating and administrative expenses	1,966	2,020	3,906	3,926
Financing charges	68	131	197	257
Total expenses	10,441	11,254	20,154	24,225
Earnings before investments in jointly controlled corporations and associates, and income taxes	1,168	855	2,311	1,693
Share of earnings of investments in jointly controlled corporations and associates [Note 6]	12	90	69	143
Earnings before income taxes	1,180	945	2,380	1,836
Income taxes [Note 15]	211	126	343	263
Net earnings	969	819	2,037	1,573
Attributable to				
Non-controlling interests	609	456	1,139	939
Non-participating shareholders	13	13	26	26
Participating shareholders	347	350	872	608
	969	819	2,037	1,573
Earnings per participating share [Note 17]				
Net earnings attributable to participating shareholders				
- Basic	0.75	0.75	1.88	1.31
- Diluted	0.74	0.75	1.87	1.30

Condensed Consolidated Statements of Comprehensive Income

(unaudited) [in millions of Canadian dollars]	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net earnings	969	819	2,037	1,573
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net earnings				
Net unrealized gains (losses) on available-for-sale investments				
Unrealized gains (losses)	(17)	69	(49)	154
Income tax (expense) benefit	6	16	21	(6)
Realized (gains) losses transferred to net earnings	(13)	(82)	(236)	(116)
Income tax expense (benefit)	(1)	2	1	5
	(25)	5	(263)	37
Net unrealized gains (losses) on cash flow hedges				
Unrealized gains (losses)	(2)	(34)	20	5
Income tax (expense) benefit	1	11	(3)	-
Realized (gains) losses transferred to net earnings	(81)	411	(69)	411
Income tax expense (benefit)	20	(162)	17	(162)
	(62)	226	(35)	254
Net unrealized foreign exchange gains (losses) on translation of foreign operations				
Unrealized gains (losses) on translation	(348)	(387)	468	(413)
Unrealized gains (losses) on euro debt designated as hedge of net investments in foreign operations	60	(60)	(20)	(60)
Income tax (expense) benefit	(8)	8	3	8
	(296)	(439)	451	(465)
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	(36)	65	250	294
Income tax (expense) benefit	5	-	(2)	-
	(31)	65	248	294
Total - items that may be reclassified	(414)	(143)	401	120
Items that will not be reclassified subsequently to net earnings				
Actuarial gains (losses) on defined benefit plans [Note 14]	188	(163)	235	(199)
Income tax (expense) benefit	(39)	38	(47)	32
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	6	-	6	(1)
Total - items that will not be reclassified	155	(125)	194	(168)
Other comprehensive income (loss)	(259)	(268)	595	(48)
Comprehensive income	710	551	2,632	1,525
Attributable to				
Non-controlling interests	483	291	1,468	846
Non-participating shareholders	13	13	26	26
Participating shareholders	214	247	1,138	653
	710	551	2,632	1,525

Condensed Consolidated Statements of Changes in Equity

Six months ended June 30, 2018 (unaudited) [in millions of Canadian dollars]	Stated capital				Reserves			
	Non-participating shares	Participating shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 16]	Total	Non-controlling interests	Total equity
Balance, beginning of year								
As previously reported	965	717	11,427	185	1,321	1,506	22,201	36,816
Change in accounting policy [Note 3]	-	-	(236)	-	-	-	(321)	(557)
Restated balance, beginning of year	965	717	11,191	185	1,321	1,506	21,880	36,259
Net earnings	-	-	898	-	-	-	1,139	2,037
Other comprehensive income	-	-	-	-	266	266	329	595
Comprehensive income	-	-	898	-	266	266	1,468	2,632
Dividends to shareholders								
Non-participating	-	-	(26)	-	-	-	-	(26)
Participating	-	-	(344)	-	-	-	-	(344)
Dividends to non-controlling interests	-	-	-	-	-	-	(665)	(665)
Share-based compensation [Note 11]	-	-	-	16	-	16	16	32
Stock options exercised	-	47	-	(25)	-	(25)	19	41
Repurchase of shares of the Corporation for cancellation	(2)	-	-	-	-	-	-	(2)
Effects of changes in capital and ownership of subsidiaries, and other	-	-	(33)	-	-	-	(96)	(129)
Balance, end of period	963	764	11,686	176	1,587	1,763	22,622	37,798

Six months ended June 30, 2017 (unaudited) [in millions of Canadian dollars]	Stated capital				Reserves			
	Non-participating shares	Participating shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 16]	Total	Non-controlling interests	Total equity
Balance, beginning of year	966	686	10,805	183	1,224	1,407	21,197	35,061
Net earnings	-	-	634	-	-	-	939	1,573
Other comprehensive income (loss)	-	-	-	-	45	45	(93)	(48)
Comprehensive income	-	-	634	-	45	45	846	1,525
Dividends to shareholders								
Non-participating	-	-	(26)	-	-	-	-	(26)
Participating	-	-	(322)	-	-	-	-	(322)
Dividends to non-controlling interests	-	-	-	-	-	-	(628)	(628)
Share-based compensation [Note 11]	-	-	-	20	-	20	19	39
Stock options exercised	-	15	-	(28)	-	(28)	26	13
Effects of changes in capital and ownership of subsidiaries, and other	-	-	14	-	6	6	668	688
Balance, end of period	966	701	11,105	175	1,275	1,450	22,128	36,350

Condensed Consolidated Statements of Cash Flows

(unaudited) [in millions of Canadian dollars]	Six months ended June 30,	
	2018	2017 ^[1]
Operating activities		
Earnings before income taxes	2,380	1,836
Income tax paid, net of refunds	(287)	(342)
Adjusting items		
Change in insurance and investment contract liabilities	(933)	2,149
Change in funds held by ceding insurers	328	431
Change in reinsurance assets	(24)	387
Change in fair value through profit or loss	1,834	(1,035)
Other	(739)	(625)
	2,559	2,801
Financing activities		
Dividends paid		
By subsidiaries to non-controlling interests	(660)	(624)
Non-participating shares	(26)	(26)
Participating shares	(344)	(322)
	(1,030)	(972)
Issue of subordinate voting shares by the Corporation [Note 10]	41	13
Repurchase of non-participating preferred shares by the Corporation [Note 10]	(2)	-
Issue of common shares by subsidiaries	47	130
Repurchase of common shares by subsidiaries	(29)	(12)
Issue of preferred shares by subsidiaries	-	450
Issue of debentures and senior notes [Note 9]	1,512	850
Redemption of debentures [Note 9]	(1,246)	(1,284)
Change in other debt instruments	(98)	1,030
Increase in obligations to securitization entities	711	611
Repayments of obligations to securitization entities and other	(788)	(823)
	(882)	(7)
Investment activities		
Bond sales and maturities	13,443	14,499
Mortgage loan repayments	2,353	2,651
Sale of shares	1,627	1,626
Change in loans to policyholders	(110)	(103)
Business acquisitions, net of cash and cash equivalents acquired [Note 4]	(222)	(258)
Investment in bonds	(13,574)	(15,511)
Investment in mortgage loans	(3,289)	(3,222)
Investment in shares	(1,762)	(1,302)
Proceeds from assets held for sale [Note 4]	169	-
Investment in investment properties and other	(260)	(375)
	(1,625)	(1,995)
Effect of changes in exchange rates on cash and cash equivalents	86	(10)
Increase in cash and cash equivalents	138	789
Cash and cash equivalents, beginning of year	5,903	5,182
Cash and cash equivalents, end of period	6,041	5,971
Net cash from operating activities includes		
Interest and dividends received	2,981	2,867
Interest paid	337	310

[1] The Corporation reclassified certain comparative figures. (see Note 2).

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

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

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The following abbreviations are used in these Consolidated Financial Statements:

CALM	Canadian Asset Liability Method	Mackenzie or Mackenzie Investments	Mackenzie Financial Corporation
Canada Life	The Canada Life Assurance Company	Pargesa	Pargesa Holding SA
China AMC	China Asset Management Co., Ltd.	Parjointco	Parjointco N.V.
Great-West Life	The Great-West Life Assurance Company	Portag3	Portag3 Ventures Limited Partnership
IFRS	International Financial Reporting Standards	Power Corporation or the Corporation	Power Corporation of Canada
IGM or IGM Financial	IGM Financial Inc.	Power Energy	Power Energy Corporation
IntegraMed	IntegraMed America, Inc.	Power Financial	Power Financial Corporation
Investors Group	Investors Group Inc.	Putnam	Putnam Investments, LLC
Irish Life	Irish Life Group Limited	Square Victoria Communications Group	Square Victoria Communications Group Inc.
Lifeco	Great-West Lifeco Inc.	Vein Clinics	Vein Clinics of America, Inc.
London Life	London Life Insurance Company	Wealthsimple	Wealthsimple Financial Corp.
Lumenpulse	Lumenpulse Group Inc.		

NOTE 1 Corporate Information

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

Power Corporation is a diversified international management and holding company with interests in companies in the financial services, asset management, sustainable and renewable energy and other business sectors.

The unaudited Interim Condensed Consolidated Financial Statements (financial statements) of Power Corporation as at and for the three and six months ended June 30, 2018 were approved by its Board of Directors on August 3, 2018.

NOTE 2 Basis of Presentation

BASIS OF PRESENTATION

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

The operating subsidiaries of the Corporation and controlled portfolio investment are:

- Power Financial Corporation, a public company in which the Corporation holds a controlling interest of 65.5% (65.5% at December 31, 2017). Power Financial holds a controlling interest in the following:
 - Lifeco, a public company in which Power Financial and IGM Financial hold 67.7% and 4.0% of the common shares, respectively (67.7% and 4.0%, respectively, at December 31, 2017). Lifeco's major operating subsidiary companies are Great-West Life, Great-West Financial, London Life, Canada Life, Irish Life and Putnam.
 - IGM Financial, a public company in which Power Financial and Great-West Life hold 61.4% and 3.8% of the common shares, respectively (61.5% and 3.8%, respectively, at December 31, 2017). IGM's major operating subsidiary companies are Investors Group and Mackenzie.
 - Portag3, an investment fund dedicated to backing innovative financial service companies. Power Financial, Lifeco and IGM hold a combined 100% equity interest in Portag3. Portag3 in turn holds a 23.6% equity interest in Wealthsimple, a technology-driven investment manager. In addition, Power Financial and IGM also hold equity interests in Wealthsimple of 14.7% and 43.3%, respectively.
- Other subsidiaries: Power Energy and Square Victoria Communications Group; and
- Controlled portfolio investment: IntegraMed, which is controlled by an investment fund controlled by the Corporation.

The financial statements of Power Corporation include the results of Power Financial, Lifeco and IGM Financial on a consolidated basis; the amounts shown in the consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are derived from the publicly disclosed consolidated financial statements of Power Financial, Lifeco and IGM Financial, all as at and for the three and six months ended June 30, 2018. Certain notes to Power Corporation's financial statements are derived from the notes to the financial statements of Power Financial.

Jointly controlled corporations are entities in which unanimous consent is required for decisions relating to relevant activities. Associates are entities in which the Corporation exercises significant influence over the entity's operating and financial policies, without having control or joint control. Investments in jointly controlled corporations and associates are accounted for using the equity method. Under the equity method, the Corporation recognizes its share of net earnings (losses), other comprehensive income (loss), the changes in equity of the jointly controlled corporations and associates, and dividends received.

Power Financial holds a 50% (50% at December 31, 2017) interest in Parjointco, a jointly controlled corporation that is a joint venture. Parjointco holds a 55.5% (55.5% at December 31, 2017) equity interest in Pargesa, a public company. Accordingly, Power Financial accounts for its investment in Parjointco using the equity method.

Power Corporation and Mackenzie Investments, a subsidiary of IGM, each hold a 13.9% equity interest in China AMC. The Corporation has significant influence and therefore accounts for its interest as an associate using the equity method.

NOTE 2 Basis of Presentation (continued)

COMPARATIVE FIGURES

The Corporation reclassified certain comparative figures in the statement of cash flows for the six-month period ended June 30, 2017 to conform to the presentation in the current year. Previously, mortgage loan originations at IGM that were to be subsequently sold or securitized were presented on a net basis within the investment activities of the statements of cash flows. The Corporation now presents them on a gross basis. The change in presentation resulted in an increase in Mortgage loan repayments of \$1.4 billion and an offsetting increase in Investment in mortgage loans of \$1.4 billion. This correction in presentation is not material and has no effect on the total investing activities or the total cash flows in the statements of cash flows nor does it have an effect on net earnings. In addition, the Corporation has presented the cash flows related to securitization activities on a gross basis in the financing activities. These were previously presented on a net basis.

NOTE 3 Summary of Significant Accounting Policies

The financial statements of Power Corporation as at June 30, 2018 have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* (IAS 34) using the same accounting policies, which are consistent with IFRS, as set out in Note 2 to the consolidated financial statements of the Corporation for the year ended December 31, 2017, except as described below. These financial statements should be read in conjunction with the Corporation's consolidated financial statements and notes thereto for the year ended December 31, 2017.

CHANGE IN ACCOUNTING POLICY**IFRS 15 - Revenue from contracts with customers (IFRS 15)**

Effective January 1, 2018 the Corporation adopted IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. The revenue recognition requirements in IFRS 15 do not apply to the revenue arising from insurance contracts, leases and financial instruments.

The Corporation's fee income is within the scope of IFRS 15 and primarily includes fees earned from management of segregated fund assets, management, administration and distribution of mutual fund assets, record keeping, fees earned on administrative services only for Group health contracts, commissions and fees earned from management services. Under IFRS 15, the Corporation recognizes revenue on the transfer of services to customers for the amount that reflects the consideration expected to be received in exchange for those services promised.

IFRS 15 outlines the criteria for the eligibility of capitalizing contract costs as well as provides guidance for costs to fulfill a contract. In the asset management business, when the customer is determined to be the investment fund, contract costs related to the distribution of the investment fund must be assessed as a cost of fulfilling a contract.

The Corporation's subsidiaries previously capitalized all commissions related to the distribution of investment funds and amortized them over their estimated useful life, not exceeding a period of seven years.

To determine whether sales commissions associated with the distribution of investment funds should be capitalized, the Corporation and its subsidiaries assess whether the customer is the investment fund or the individual investor. Where it is determined that the investment fund is the customer, contract costs are expensed as incurred. Where it is determined that the individual investor is the customer, contract costs are capitalized and amortized over their estimated useful lives, not exceeding a period of seven years.

NOTE 3 Summary of Significant Accounting Policies (continued)

The Corporation and its subsidiaries have elected to apply the modified retrospective approach, as permitted by the transition provisions within IFRS 15. As a result of changes to the treatment of contract costs, Lifeco and IGM have recorded an adjustment for the derecognition of certain deferred acquisition costs included in other assets, deferred selling commissions included in intangible assets and related income tax liabilities which resulted in a decrease of \$236 million in the opening retained earnings of the Corporation as at January 1, 2018.

The impact of the change in accounting policy on the consolidated balance sheet is as follows:

	December 31, 2017 (as previously reported)	Impact of change in accounting policy	January 1, 2018 (restated)
Assets			
Other assets	8,664	(59)	8,605
Intangible assets – Deferred selling commissions	767	(703)	64
		(762)	
Liabilities and shareholders' equity			
Deferred tax liabilities	1,769	(205)	1,564
Retained earnings	11,427	(236)	11,191
Non-controlling interests	22,201	(321)	21,880
		(762)	

The changes in the carrying value of the deferred selling commissions included in intangible assets on the consolidated balance sheets are as follows:

	June 30, 2018	December 31, 2017
Cost, beginning of year		
As previously reported	1,429	1,374
Change in accounting policy	(1,359)	-
Restated cost, beginning of year	70	1,374
Additions	29	272
Disposal/redemption	-	(53)
Other, including write-off of assets fully amortized	-	(164)
Cost, end of period	99	1,429
Accumulated amortization, beginning of year		
As previously reported	(662)	(648)
Change in accounting policy	656	-
Restated accumulated amortization, beginning of year	(6)	(648)
Amortization	(6)	(207)
Disposal/redemption	-	29
Other, including write-off of assets fully amortized	-	164
Accumulated amortization, end of period	(12)	(662)
Carrying value, end of period	87	767

NOTE 3 Summary of Significant Accounting Policies (continued)**Comparative figures**

In addition, Lifeco has reclassified comparative amounts in the consolidated statements of earnings for the change in presentation of certain revenues and expenses on a gross or net basis. These changes were mostly related to a change in the principal versus agent relationship as a result of the guidance prescribed under IFRS 15 in assessing whether the entity controls the service transferred to the customer. As a result, certain balances within gross premiums written, fee income, commissions, and operating and administrative expenses were reclassified. These reclassifications were not significant and did not have an impact on the net earnings. The impact by line items on the consolidated statements of earnings is as follows:

For the three months ended June 30, 2017	Amount previously reported	Reclassification	Revised amount presented
Gross premiums written	8,792	(11)	8,781
Fee income	2,101	40	2,141
Commissions	816	60	876
Operating and administrative expenses	2,051	(31)	2,020
For the six months ended June 30, 2017	Amount previously reported	Reclassification	Revised amount presented
Gross premiums written	19,276	(22)	19,254
Fee income	4,107	83	4,190
Commissions	1,833	120	1,953
Operating and administrative expenses	3,985	(59)	3,926

As a result of the adoption of IFRS 15 the following accounting policy has been changed since December 31, 2017:

Intangible assets - Deferred selling commissions

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

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

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

USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the preparation of the financial statements, management of the Corporation and management of its subsidiaries are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation uncertainty and areas where significant judgments have been made by the management of the Corporation and the management of its subsidiaries are further described in the relevant accounting policies as described in the Corporation's financial statements and notes thereto for the year ended December 31, 2017.

FUTURE ACCOUNTING CHANGES

There have been no significant changes to future accounting policies that could impact the Corporation from what was disclosed in the December 31, 2017 consolidated annual audited financial statements.

NOTE 3 Summary of Significant Accounting Policies (continued)**Current implication of IFRS 9 – Financial Instruments (IFRS 9)**

In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, the current standard for accounting for financial instruments with an effective date of January 1, 2018.

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

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

The Corporation qualifies and has elected to apply the deferral approach which permits the adoption of both IFRS 9 and IFRS 17 *Insurance Contracts* simultaneously on January 1, 2021.

Pargesa (held through Parjointco), a jointly controlled corporation, does not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted but not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation has decided to continue applying IAS 39 to Pargesa’s results.

NOTE 4 Business Acquisitions and Disposals**LIFECO****Retirement Advantage**

On January 2, 2018, Lifeco, through its indirect wholly owned subsidiary The Canada Life Group (UK) Ltd., completed the acquisition of 100% of the outstanding shares of MGM Advantage Holdings Ltd. which operates as Retirement Advantage. Retirement Advantage is a financial services provider based in the United Kingdom that offers retirement and equity-release services.

As at June 30, 2018, the accounting for the acquisition is incomplete pending completion of a comprehensive valuation of the net assets acquired. The following table summarizes the aggregate amounts preliminarily assigned to the assets acquired and liabilities assumed:

Assets acquired	
Investments	
Bonds	1,748
Mortgage loans – equity-release mortgages ^[1]	799
Reinsurance assets	931
Cash and cash equivalents and other assets	261
Investments on account of segregated fund policyholders	950
	4,689
Less: liabilities assumed	
Insurance contract liabilities	2,563
Other liabilities	1,023
Insurance and investment contracts on account of segregated fund policyholders	950
	4,536
Net assets acquired	153

[1] Equity-release mortgages are loans provided to seniors who want to continue living in their homes while accessing some of the underlying equity value in their homes. Loans are typically repaid when the borrower dies or moves into long-term care.

NOTE 4 Business Acquisitions and Disposals (continued)

The financial statements at June 30, 2018 reflect Lifeco's best estimate of the purchase price allocation, which includes provisional amounts. The comprehensive evaluation of the assets acquired and liabilities assumed, and completion of the purchase price allocation will be finalized during 2018. The initial amount assigned to goodwill of \$240 million on the date of acquisition will be adjusted during the year.

Revenue and net earnings of Retirement Advantage were not significant to the results of the Corporation.

EverWest Real Estate Partners

On February 2, 2018, Lifeco, through its wholly owned subsidiary GWL Realty Advisors U.S. Inc. completed the acquisition of EverWest Real Estate Partners, a United States real estate advisor. The acquisition was not material.

Acquisition of PanAgora Asset Management, Inc. non-controlling interest

During the first quarter of 2018, Lifeco, through Putnam, acquired the non-controlling interest in PanAgora Asset Management, Inc. previously held by Nippon Life Insurance Company. This transaction decreased the Corporation's retained earnings and non-controlling interests by \$25 million and \$50 million, respectively, with no impact on net earnings.

Disposal of assets held for sale

During the first quarter of 2018, Lifeco executed the final sale agreement and disposed of its assets held for sale totalling \$169 million at December 31, 2017. The derecognition of these assets held for sale, included in other assets in the December 31, 2017 balance sheet, did not have an impact on net earnings for the period ended June 30, 2018.

Invesco Ltd (Ireland)

On April 20, 2018, Lifeco, through its indirect wholly owned subsidiary Irish Life, entered into an agreement to acquire a controlling interest in Invesco Ltd (Ireland), an independent financial consultancy firm in Ireland. The acquisition is expected to close in the third quarter of 2018.

Sale of policies to Scottish Friendly Assurance Society Limited

On June 21, 2018, Canada Life Limited, an indirect wholly owned subsidiary of Lifeco, announced an agreement to sell a heritage block of individual policies to Scottish Friendly Assurance Society Limited (Scottish Friendly) of approximately \$4.7 billion, composed of unit-linked policies of approximately \$3.8 billion and non-unit-linked policies of \$0.9 billion. These balances have not been classified as held for sale, pending the determination of the actual amount and allocation of assets and similar amount of liabilities to be transferred. This determination will be completed following the data audit and migration plan which will be agreed in due course, in accordance with the business transfer agreement. Upon completion of the data audit and other conditions being met, Lifeco will re-evaluate the classification of these agreed-upon amounts as held for sale. The transfer of these policies is expected to occur in the second half of 2019.

Net earnings from the disposal of these policies are not expected to be material to the financial statements.

Square Victoria Communications Group

On May 8, 2018, La Presse announced its intention to adopt a not-for-profit structure that would benefit from a financial contribution of \$50 million from Power Corporation. The transaction closed on July 14, 2018 and consisted of a transfer of all assets and liabilities of La Presse into the not-for-profit structure except that Power Corporation has retained under its responsibility the funding on a going-concern basis of the retirement obligations accrued at the transaction date.

NOTE 5 Investments**CARRYING VALUES AND FAIR VALUES**

Carrying values and estimated fair values of investments are as follows:

	June 30, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated as fair value through profit or loss	88,634	88,634	87,988	87,988
Classified as fair value through profit or loss	1,740	1,740	1,836	1,836
Available for sale	13,735	13,735	12,807	12,807
Loans and receivables	18,755	19,837	17,959	19,470
	122,864	123,946	120,590	122,101
Mortgage loans				
Loans and receivables	31,217	31,611	29,748	30,680
Designated as fair value through profit or loss ^[1]	896	896	-	-
Classified as fair value through profit or loss ^[2]	7	7	340	340
	32,120	32,514	30,088	31,020
Shares				
Designated as fair value through profit or loss	8,718	8,718	8,194	8,194
Available for sale	1,730	1,730	1,948	1,948
	10,448	10,448	10,142	10,142
Investment properties	5,098	5,098	4,851	4,851
Loans to policyholders	8,611	8,611	8,280	8,280
	179,141	180,617	173,951	176,394

[1] Equity-release mortgages acquired with the acquisition of Retirement Advantage [Note 4] are designated at fair value through profit or loss. There are no market observable prices for equity-release mortgages; therefore an internal discounted cash flow model is used to value these assets. These mortgage loans are included in Level 3 of the fair value hierarchy [Note 18].

[2] Mortgage loans previously classified as fair value through profit or loss and subsequently reclassified to loans and receivables are now initially classified with respect to the intent of the loan on origination.

NOTE 6 Investments in Jointly Controlled Corporations and Associates

The carrying values of the investments in jointly controlled corporations and associates are as follows:

June 30, 2018	Jointly controlled corporations		Associates		Total
	Parjointco	Other	China AMC	Other	
Carrying value, beginning of year	3,354	312	1,290	198	5,154
Investments	-	37	-	17	54
Share of earnings (losses)	80	(38)	31	(4)	69
Share of other comprehensive income	200	11	39	6	256
Dividends	(75)	-	(24)	-	(99)
Effects of changes in ownership and other	(8)	(3)	-	(2)	(13)
Carrying value, end of period	3,551	319	1,336	215	5,421

June 30, 2017	Jointly controlled corporations		Associates		Total
	Parjointco	Other	China AMC	Other	
Carrying value, beginning of year	2,811	334	-	408	3,553
Investments	-	85	-	-	85
Disposal ^[1]	-	-	-	(208)	(208)
Share of earnings	94	27	-	22	143
Share of other comprehensive income (losses)	306	(8)	-	(5)	293
Dividends	(78)	-	-	(6)	(84)
Effects of changes in ownership and other ^[2]	(1)	(145)	-	3	(143)
Carrying value, end of period	3,132	293	-	214	3,639

[1] In the first quarter of 2017, Lifeco disposed of its investment in Allianz Ireland.

[2] On May 15, 2017, Power Financial attained control of Wealthsimple. As of this date, the investment in Wealthsimple was no longer accounted for as a jointly controlled corporation and has been consolidated within the Corporation's financial statements.

NOTE 7 Segregated Funds

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

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	June 30, 2018	December 31, 2017
Cash and cash equivalents	13,000	13,300
Bonds	42,746	42,270
Mortgage loans	2,693	2,610
Shares and units in unit trusts	96,797	93,465
Mutual funds	55,955	54,658
Investment properties	11,783	11,520
	222,974	217,823
Accrued income	400	373
Other liabilities	(3,197)	(2,441)
Non-controlling mutual fund interest	940	1,602
	221,117	217,357

INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	Six months ended June 30,	
	2018	2017
Balance, beginning of year	217,357	200,403
Additions (deductions):		
Policyholder deposits	12,506	12,244
Net investment income	1,081	759
Net realized capital gains on investments	2,220	2,909
Net unrealized capital gains (losses) on investments	(1,371)	2,232
Unrealized gains due to changes in foreign exchange rates	2,803	2,063
Policyholder withdrawals	(13,820)	(11,344)
Business acquisition ^[1]	950	-
Segregated fund investment in General Fund	48	(98)
General Fund investment in segregated fund	(9)	(6)
Net transfer from General Fund	14	51
Non-controlling mutual fund interest	(662)	(677)
	3,760	8,133
Balance, end of period	221,117	208,536

[1] Insurance and investment contracts on account of segregated fund policyholders acquired through the acquisition of Retirement Advantage [Note 4].

NOTE 7 Segregated Funds (continued)**INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS** (by fair value hierarchy level)

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ^[1]	144,005	66,715	12,642	223,362

[1] Excludes other liabilities, net of other assets, of \$2,245 million.

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ^[1]	136,469	70,034	12,572	219,075

[1] Excludes other liabilities, net of other assets, of \$1,718 million.

During the six months ended June 30, 2018, certain foreign equity holdings valued at \$3,221 million were transferred from Level 2 to Level 1 (\$629 million were transferred from Level 1 to Level 2 at December 31, 2017), primarily based on Lifeco utilizing inputs in addition to quoted prices in active markets for certain foreign stock holdings at December 31, 2017. Level 2 includes assets where fair value is not available from normal market pricing sources and where Lifeco does not have visibility through to the underlying assets. Inputs are utilized in addition to quoted prices in active markets.

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

	June 30, 2018	December 31, 2017
Balance, beginning of year	12,572	12,045
Total gains included in segregated fund investment income	227	422
Purchases	168	926
Sales	(321)	(943)
Transfers into Level 3	4	137
Transfers out of Level 3	(8)	(15)
Balance, end of period	12,642	12,572

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

Refer to the Lifeco section of the Corporation's Management's Discussion and Analysis (Part C) for the six-month period ended June 30, 2018 and for the year ended December 31, 2017 for further details on Lifeco's risk and guarantee exposure and the management of these segregated fund risks.

NOTE 8 Insurance and Investment Contract Liabilities**INSURANCE AND INVESTMENT CONTRACT LIABILITIES**

	June 30, 2018			December 31, 2017		
	Gross liability	Reinsurance assets	Net	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	163,898	6,095	157,803	159,524	5,045	154,479
Investment contract liabilities	1,769	-	1,769	1,841	-	1,841
	165,667	6,095	159,572	161,365	5,045	156,320

NOTE 9 Debentures and Other Debt Instruments**POWER CORPORATION****Subsequent event**

On July 25, 2018, the Corporation issued \$250 million of 30-year 4.455% debentures. The net proceeds will be used by the Corporation to fund, on September 6, 2018, the redemption of all of its \$250 million 7.57% debentures due April 22, 2019.

LIFECO

On February 28, 2018, Lifeco issued \$500 million of 10-year 3.337% debentures at par, maturing on February 28, 2028. Interest on the debentures is payable semi-annually in arrears on February 28 and August 28, commencing August 28, 2018 until the date on which the debentures are repaid. The debentures are redeemable at any time prior to November 28, 2027 in whole or in part at the greater of the Canada Yield Price and par, and on or after November 28, 2027 in whole or in part at par, together in each case with accrued and unpaid interest.

On March 21, 2018, Lifeco's 6.14% \$200 million debenture notes matured at their principal amount together with accrued interest.

On May 17, 2018, Great-West Lifeco Finance 2018, LP issued \$384 million (US\$300 million) 4.047% senior notes due May 17, 2028 and \$640 million (US\$500 million) 4.581% senior notes due May 17, 2048. The tranches of senior notes are fully and unconditionally guaranteed by Lifeco.

On June 18, 2018, Great-West Life & Annuity Insurance Capital, LPII redeemed all \$399 million (US\$300 million) 2.538% plus 3-month LIBOR unsecured subordinated debentures due May 16, 2046. The interest payments on this debt were hedged using an interest rate swap designated as a cash flow hedge. The interest rate hedge was terminated prior to the redemption of the underlying debentures. On redemption of the underlying debentures, pre-tax gains of \$65 million on the interest rate hedge were recognized within financing charges and income tax expense of \$14 million in the statements of earnings.

On June 26, 2018, Great-West Lifeco Finance (Delaware) LPII redeemed all \$500 million 7.127% until first par call date of June 26, 2018 and, thereafter, at a rate of equal to the Canadian Bankers' Acceptance rate plus 3.78%, unsecured subordinated debentures due June 26, 2048. The repayment of the debentures was hedged using a cross-currency swap designated as a cash flow hedge. The redemption of debentures and derecognition of the swap resulted in a pre-tax increase of \$21 million to net investment income and \$8 million to income tax expense in the statements of earnings.

IGM

On March 7, 2018, IGM repaid on maturity, the \$150 million 2003 series 6.58% debentures.

Subsequent event

On July 11, 2018, IGM issued \$200 million of 4.174% debentures maturing July 13, 2048. The net proceeds will be used by IGM, together with a portion of its existing internal cash resources, to fund the redemption of all of its \$375 million 7.35% debentures due April 8, 2019 (2019 Debentures). IGM issued a notice on July 11, 2018 to redeem the 2019 Debentures on August 10, 2018.

NOTE 10 Stated Capital**AUTHORIZED**

The authorized capital of Power Corporation consists of an unlimited number of First Preferred Shares, issuable in series; an unlimited number of Participating Preferred Shares; and an unlimited number of Subordinate Voting Shares.

ISSUED AND OUTSTANDING

	June 30, 2018		December 31, 2017	
	Number of shares	Stated capital	Number of shares	Stated capital
		\$		\$
Non-Participating Shares				
First Preferred Shares				
Cumulative Redeemable				
1986 Series	268,400	13	300,800	15
Non-cumulative Redeemable, fixed rate				
Series A	6,000,000	150	6,000,000	150
Series B	8,000,000	200	8,000,000	200
Series C	6,000,000	150	6,000,000	150
Series D	10,000,000	250	10,000,000	250
Series G	8,000,000	200	8,000,000	200
		963		965
Participating Shares				
Participating Preferred Shares	48,854,772	27	48,854,772	27
Subordinate Voting Shares				
Balance, beginning of year	415,443,579	690	414,461,536	659
Issued under Stock Option Plan	1,573,416	47	982,043	31
Balance, end of period	417,016,995	737	415,443,579	690
Total Participating Shares		764		717

Non-Participating Shares

During the six months ended June 30, 2018, 32,400 cumulative redeemable First Preferred Shares, 1986 Series were purchased for cancellation (1,200 shares for the six months ended June 30, 2017).

Participating Shares

During the six months ended June 30, 2018, 1,573,416 Subordinate Voting Shares were issued under the Corporation's Executive Stock Option Plan for a consideration of \$41 million (483,038 Subordinate Voting Shares issued for the six months ended June 30, 2017 for a consideration of \$13 million).

During the six months ended June 30, 2018, dividends declared on the Corporation's participating shares amounted to \$0.7405 per share (\$0.6935 per share in 2017).

NOTE 11 Share-Based Compensation**STOCK OPTION PLAN**

Under Power Corporation's Executive Stock Option Plan, 23,415,009 Subordinate Voting Shares are reserved for issuance.

A summary of the status of Power Corporation's Executive Stock Option Plan as at June 30, 2018 and 2017, and changes during the periods ended on those dates is as follows:

	June 30, 2018		June 30, 2017	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		\$		\$
Outstanding at beginning of year	17,630,666	28.38	18,768,640	28.75
Granted	1,350,172	28.51	1,127,871	31.46
Exercised	(1,573,416)	26.13	(483,038)	26.79
Forfeited and expired	(866,266)	32.66	(1,183,802)	36.93
Outstanding at end of period	16,541,156	28.38	18,229,671	28.44
Options exercisable at end of period	12,073,307	27.69	13,801,509	27.55

The exercise price of the 16,541,156 outstanding options ranges from \$18.52 to \$33.82.

Compensation expense

During the six months ended June 30, 2018, Power Corporation granted 1,350,172 options (1,127,871 options in 2017) under its Executive Stock Option Plan.

The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	June 30, 2018	June 30, 2017
Dividend yield	4.5%	4.1%
Expected volatility	16.5%	19.3%
Risk-free interest rate	2.1%	1.4%
Expected life (years)	8.3	8.3
Fair value per stock option (\$/option)	2.29	3.15
Weighted-average exercise price (\$/option)	28.51	31.46

Power Financial, Lifeco and IGM have also established stock option plans pursuant to which options may be granted to certain officers and employees. In addition, other subsidiaries of the Corporation have established share-based compensation plans. Compensation expense is recorded based on the fair value of the options or the fair value of the equity investments at the grant date, amortized over the vesting period. For the three months ended June 30, 2018, total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to \$13 million (\$14 million in 2017), and \$32 million for the six months ended June 30, 2018 (\$39 million in 2017), and is recorded in operating and administrative expenses in the statements of earnings.

NOTE 12 Capital Management

POWER CORPORATION

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

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

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

The capital structure of the Corporation consists of debentures, non-participating shares, participating shareholders' equity and non-controlling interests. The Corporation views non-participating shares as a cost-effective source of permanent capital. The Corporation is a long-term investor and as such holds positions in long-term investments as well as cash and fixed income securities for liquidity purposes.

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

The Corporation itself is not subject to externally imposed regulatory capital requirements. However, Lifeco and certain of its main subsidiaries and IGM's subsidiaries are subject to regulatory capital requirements and they manage their capital as described below.

LIFECO

Lifeco manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of Lifeco's capital management strategy are to:

- maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- maintain strong credit and financial strength ratings of Lifeco ensuring stable access to capital markets; and
- provide an efficient capital structure to maximize shareholder value in the context of Lifeco's operational risks and strategic plans.

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

The target level of capitalization for Lifeco and its subsidiaries is assessed by considering various factors such as the probability of falling below the minimum regulatory capital requirements in the relevant operating jurisdiction, the views expressed by various credit rating agencies that provide financial strength and other ratings to Lifeco, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of Lifeco with a high degree of confidence.

NOTE 12 Capital Management (continued)

- In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a regulatory capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries. Effective January 1, 2018, OSFI replaced the prior Minimum Continuing Capital and Surplus Requirements (MCCSR) with the Life Insurance Capital Adequacy Test (LICAT). The LICAT ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer, defined by OSFI, is the aggregate of all defined capital requirements multiplied by a scalar of 1.05. The total capital resources are provided by the sum of available capital, surplus allowance and eligible deposits. OSFI has established a supervisory target total ratio of 100%, and a supervisory minimum total ratio of 90%. Great-West Life's consolidated LICAT ratio at June 30, 2018 was 133%.
- Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions.

IGM FINANCIAL

IGM's capital management objective is to maximize shareholder returns while ensuring that it is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. IGM's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. IGM regularly assesses its capital management practices in response to changing economic conditions.

IGM's capital is primarily used in its ongoing business operations to support working capital requirements, long-term investments made by IGM, business expansion and other strategic objectives.

The IGM subsidiaries that are subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. IGM subsidiaries have complied with all regulatory capital requirements.

NOTE 13 Risk Management

The Corporation and its subsidiaries have established policies, guidelines and procedures designed to identify, measure, monitor and mitigate risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk.

- Liquidity risk is the risk that the Corporation and its subsidiaries would not be able to meet all cash outflow obligations as they come due and also the inability to, in a timely manner, raise capital or monetize assets at normal market conditions.
- Credit risk is the potential for financial loss to the Corporation and its subsidiaries if a counterparty in a transaction fails to meet its payment obligations. Credit risk can be related to the default of a single debt issuer, variation of credit spreads on tradable fixed income securities and also counterparty risk which relates to derivative products.
- Market risk is the risk that the market value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: foreign exchange risk, interest rate risk and equity risk.
 - Foreign exchange risk relates to the Corporation, its subsidiaries and its jointly controlled corporations and associates operating in different currencies and converting non-Canadian investments and earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.
 - Interest rate risk is the risk that the fair value of a financial instrument will fluctuate following changes in the interest rates.
 - Equity risk is the potential loss associated with the sensitivity of the market price of a financial instrument arising from volatility in equity markets.

NOTE 13 Risk Management (continued)

This note to the financial statements includes estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons, including:

- assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered;
- changes in actuarial, investment return and future investment activity assumptions;
- actual experience differing from the assumptions;
- changes in business mix, effective tax rates and other market factors;
- interactions among these factors and assumptions when more than one changes; and
- the general limitations of internal models.

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above. Given the nature of these calculations, the Corporation cannot provide assurance that the actual impact on net earnings will be as indicated.

POWER CORPORATION, POWER FINANCIAL AND OTHER SUBSIDIARIES

Liquidity risk, credit risk and market risk of Power Corporation, Power Financial and the Corporation's other subsidiaries are discussed in the first section of this note. In subsequent sections, risks related to Lifeco and IGM are discussed.

Liquidity risk

Power Corporation is a holding company. As such, corporate cash flows are principally made up of dividends received from its subsidiaries and income from investments, less operating expenses, financing charges, income taxes and payment of dividends to its participating and non-participating shareholders. Dividends received from Power Financial, which is also a holding company, represent a significant component of Power Corporation's corporate cash flows. The ability of Power Financial's subsidiaries (Lifeco and IGM) and jointly controlled corporation (Parjointco), which are also holding companies, to meet their obligations and pay dividends is dependent upon receipt of dividends from their own subsidiaries.

Power Corporation and Power Financial regularly review their liquidity requirements and seek to maintain sufficient levels of liquidities to meet their operating expenses, financing charges and payment of preferred share dividends for a reasonable period of time, as defined in their policies. The ability of Power Corporation, Power Financial and other subsidiaries to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Corporation, Power Financial and their subsidiaries.

Liquidity is also available through the Corporation's lines of credit with Canadian banks. The Corporation has a committed line of credit of \$250 million. The Corporation also maintains an uncommitted line of credit of \$100 million, and any advances are at the bank's sole discretion. At June 30, 2018, both lines of credit were unutilized.

Power Corporation, Power Financial and other subsidiaries' management of liquidity risk have not changed materially since December 31, 2017.

Credit risk

Fixed income securities and derivatives are subject to credit risk. Power Corporation and Power Financial mitigate credit risk on their fixed income securities by adhering to an investment policy that establishes guidelines which provide exposure limits by defining admissible securities, minimum rating and concentration limits.

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

NOTE 13 Risk Management (continued)

Derivatives can be also used mainly to mitigate foreign exchange exposures. Power Corporation and Power Financial regularly review the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter with counterparties that are highly rated financial institutions.

Other subsidiaries' financial instruments do not have significant exposure to credit risk.

Power Corporation Power Financial and other subsidiaries' exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and derivatives have not changed materially since December 31, 2017.

Market risk

Power Corporation and Power Financial's financial instruments are comprised of cash and cash equivalents, fixed income securities, other investments (consisting of equity securities, investment funds and hedge funds), derivatives and debentures.

a) Foreign exchange risk

In managing their own cash and cash equivalents as well as fixed income securities, Power Corporation, Power Financial and other subsidiaries may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Corporation and Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at June 30, 2018, approximately 69% of Power Corporation, Power Financial and other subsidiaries' cash and cash equivalents and fixed income securities were denominated in Canadian dollars.

Most of Power Corporation's other investments are classified as available for sale. As such, unrealized gains and losses on these investments, resulting from foreign exchange rate variations, are recorded in other comprehensive income until realized. As at June 30, 2018, the impact of a 5% strengthening of the Canadian dollar against foreign currencies would have resulted in an unrealized loss recorded in other comprehensive income of approximately \$82 million. Power Corporation's and Power Financial's debentures are denominated in Canadian dollars. A controlled portfolio investment of the Corporation has debt instruments in foreign currencies. Unrealized gains or losses on these debt instruments resulting from foreign exchange variations are recorded in other comprehensive income.

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in Pargesa, a company whose functional currency is the Swiss franc. Pargesa itself is exposed to foreign exchange risk through its subsidiary whose functional currency is the euro. Foreign currency translation gains and losses from Pargesa are recorded in other comprehensive income. Power Corporation is also exposed to foreign exchange risk on its investment in China AMC. Foreign currency translation gains and losses on this investment are recorded in other comprehensive income.

b) Interest rate risk

Power Corporation, Power Financial and other subsidiaries' financial instruments do not have significant exposure to interest rate risk.

c) Equity risk

Other investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

For the six months ended June 30, 2018, the Corporation recorded investment impairment charges amounting to \$11 million (\$17 million in 2017). As at June 30, 2018, the impact of a 5% decrease in the value of other investments would have resulted in an approximate \$69 million unrealized loss recorded in other comprehensive income.

Pargesa indirectly holds substantial investments classified as available for sale. Unrealized gains and losses on these investments are recorded in other comprehensive income until realized. These investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

Other subsidiaries' financial instruments do not have significant exposure to equity risk.

NOTE 13 Risk Management (continued)

LIFECO

The risk committee of the board of directors of Lifeco is responsible for the oversight of Lifeco's key risks. Lifeco has established policies and procedures designed to identify, measure and report all material risks. Lifeco's approach to risk management has not changed significantly since December 31, 2017. A summary of the risks is presented below. For a more detailed discussion of Lifeco's risk governance structure and risk management approach, refer to the Risk Management note in the Corporation's December 31, 2017 financial statements.

Liquidity risk

Lifeco has the following policies and procedures in place to manage liquidity risk:

- Lifeco closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets.
- Management of Lifeco closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or via capital market transactions. Lifeco maintains committed lines of credit with Canadian chartered banks.

Credit risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. No significant changes have occurred from the year ended December 31, 2017.

Market risk*a) Foreign exchange risk*

If the assets backing insurance and investment contract liabilities are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases. Lifeco has net investments in foreign operations. Lifeco's debt obligations are denominated in Canadian dollars, euros and U.S. dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts Lifeco's total equity. Correspondingly, Lifeco's book value per share and capital ratios monitored by rating agencies are also impacted.

- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change to net earnings.
- A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount, resulting in an immaterial change in net earnings.

b) Interest rate risk

Projected cash flows from the current assets and liabilities are used in the CALM to determine insurance contract liabilities. Valuation assumptions have been made regarding rates of returns on supporting assets, fixed income, equity and inflation. The valuation assumptions use best estimates of future reinvestment rates and inflation assumptions with an assumed correlation together with margins for adverse deviation set in accordance with professional standards. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries-prescribed scenarios.

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

NOTE 13 Risk Management (continued)

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

- At June 30, 2018 and December 31, 2017, the effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- At June 30, 2018 and December 31, 2017, the effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholders' net earnings of a 1% change in Lifeco's view of the range of interest rates to be covered by these provisions. The following provides information on the effect of an immediate 1% increase or 1% decrease in the interest rates at both the low and high end of the range of interest rates recognized in the provisions:

	June 30, 2018		December 31, 2017	
	1% increase	1% decrease	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	(195)	667	(215)	720
Increase (decrease) in net earnings	138	(488)	150	(523)

c) Equity risk

Lifeco has investment policy guidelines in place that provide for prudent investment in equity markets with clearly defined limits to mitigate price risk.

The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, Lifeco generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level. In other words, Lifeco determines insurance contract liabilities at a level that covers the average loss in the worst 25% part of the loss distribution.

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. However, there may be additional market and liability impacts as a result of changes in the equity values that will cause the liabilities to fluctuate differently than the equity values. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

	June 30, 2018		December 31, 2017	
	10% increase	10% decrease	10% increase	10% decrease
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	(69)	139	(58)	109
Increase (decrease) in net earnings	58	(109)	48	(85)

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. The following provides information on the expected impacts of a 1% increase or 1% decrease in the best estimate assumptions:

	June 30, 2018		December 31, 2017	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions for equities				
Increase (decrease) in non-participating insurance contract liabilities	(587)	659	(542)	591
Increase (decrease) in net earnings	476	(525)	439	(470)

NOTE 13 Risk Management (continued)

IGM FINANCIAL

The risk management policies and procedures of IGM are discussed further in the IGM section of the Corporation's Management's Discussion and Analysis for the six months ended June 30, 2018, and have not changed significantly since December 31, 2017. A summary of the risks is presented below:

Liquidity risk

IGM's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near-term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and IGM's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity by management and by committees of the board of directors of IGM.

A key liquidity requirement for IGM is the funding of commissions paid on the sale of investment funds. Commissions on the sale of investment funds continue to be paid from operating cash flows.

IGM also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources and to manage any derivative collateral requirements related to the mortgage banking operation. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS), including sales to Canada Housing Trust under the Canada Mortgage Bond Program (CMB Program). IGM maintains committed capacity within certain Canadian bank-sponsored securitization trusts.

IGM's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2017.

Credit risk

IGM's cash and cash equivalents, securities holdings, mortgage portfolios and derivatives are subject to credit risk. IGM monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

IGM manages credit risk related to cash and cash equivalents by adhering to an investment policy that outlines risk parameters and concentration limits. IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

IGM manages credit risk related to residential mortgages through:

- adhering to its lending policy and underwriting standards;
- its loan servicing capabilities;
- use of client-insured mortgage default insurance and mortgage portfolio default insurance held by IGM; and
- its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and Investors Group Consultants as part of a client's comprehensive financial plan.

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities, mortgage portfolios and derivatives have not changed materially since December 31, 2017.

Market risk*a) Foreign exchange risk*

IGM is exposed to foreign exchange risk on its investments in Personal Capital Corporation and China AMC.

NOTE 13 Risk Management (continued)*b) Interest rate risk*

IGM is exposed to interest rate risk on its mortgage loan portfolio and on certain of the derivative financial instruments used in IGM's mortgage banking operations.

IGM's exposure to and management of interest rate risk have not changed materially since December 31, 2017.

c) Equity risk

IGM is exposed to equity risk on its equity securities which are classified as either available for sale or fair value through profit or loss.

IGM sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of IGM Financial Inc. IGM hedges its exposure to this risk through the use of forward agreements and total return swaps.

Risks related to assets under management

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings of IGM.

NOTE 14 Pension Plans and Other Post-Employment Benefits

The pension plan and other post-employment benefits expense included in net earnings and other comprehensive income are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Pension plans				
Service costs ^[1]	64	16	132	77
Curtailment	(1)	(2)	(1)	(2)
Net interest cost	12	13	22	24
	75	27	153	99
Post-employment benefits				
Service costs	1	1	3	3
Net interest cost	5	5	9	9
	6	6	12	12
Expense recognized in net earnings	81	33	165	111
Remeasurements				
Pension plans				
Actuarial (gains) losses ^[2]	(121)	183	(232)	320
Return on assets greater than discount rate	(82)	(29)	(14)	(128)
Change in the asset ceiling	23	(4)	23	(16)
Post-employment benefits				
Actuarial (gains) losses ^[2]	(8)	13	(12)	23
Expense (income) recognized in other comprehensive income (loss)	(188)	163	(235)	199
Total expense (income)	(107)	196	(70)	310

[1] In 2017, IGM Financial implemented a new policy that limits the possibility of future benefit increases. As a result of this change, IGM Financial revalued its pension obligation and recognized a reduction to its obligation of \$50 million as a decrease to pension plan expenses in the second quarter of 2017.

[2] Actuarial gains related to the pension plans and other post-employment benefits for the three and six months ended June 30, 2018 are due to an increase in discount rates since December 31, 2017.

NOTE 15 Income Taxes**INCOME TAX EXPENSE**

The components of income tax expense recognized in net earnings are:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Current taxes	140	187	274	320
Deferred taxes	71	(61)	69	(57)
	211	126	343	263

EFFECTIVE INCOME TAX RATE

The overall effective income tax rate for the Corporation for the six months ended June 30, 2018 was 14.4%, compared to 15.2% for the full year 2017 and 14.3% for the six months ended June 30, 2017.

The effective income tax rates are generally lower than the Corporation's statutory income tax rate of 26.7% due to non-taxable investment income, lower tax in foreign jurisdictions and the results from the jointly controlled corporations and associates which are not taxable.

NOTE 16 Other Comprehensive Income

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Six months ended June 30, 2018						
Balance, beginning of year	483	617	742	(509)	(12)	1,321
Other comprehensive income (loss)	(235)	231	170	96	4	266
Balance, end of period	248	848	912	(413)	(8)	1,587

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Six months ended June 30, 2017						
Balance, beginning of year	373	902	433	(468)	(16)	1,224
Other comprehensive income (loss)	172	(224)	189	(91)	(1)	45
Other	-	-	-	-	6	6
Balance, end of period	545	678	622	(559)	(11)	1,275

NOTE 17 Earnings per Share

The following is a reconciliation of the numerators and the denominators used in the computations of earnings per share:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Earnings				
Net earnings attributable to shareholders	360	363	898	634
Dividends on non-participating shares	(13)	(13)	(26)	(26)
Net earnings attributable to participating shareholders	347	350	872	608
Dilutive effect of subsidiaries' outstanding stock options	-	(1)	(1)	(1)
Net earnings adjusted for dilutive effect	347	349	871	607
Number of participating shares [millions]				
Weighted average number of participating shares outstanding - Basic	465.0	463.8	464.8	463.7
Potential exercise of outstanding stock options	1.0	1.3	1.1	1.5
Weighted average number of participating shares outstanding - Diluted	466.0	465.1	465.9	465.2
Net earnings per participating share				
Basic	0.75	0.75	1.88	1.31
Diluted	0.74	0.75	1.87	1.30

For the six months ended June 30, 2018, 4.4 million stock options (3.7 million in 2017) have been excluded from the computation of diluted earnings per share as they were anti-dilutive.

NOTE 18 Fair Value Measurement

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

- Level 1 inputs utilize observable, unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions. Level 1 assets also include open-end investment fund units and other liabilities in instances where there are quoted prices available from active markets.
- 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 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other-than-quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 assets and liabilities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives and most mortgage loans. Investment contracts that are measured at fair value through profit or loss are mostly included in the Level 2 category.
- Level 3 inputs utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single-broker quotes, internal pricing models, external appraisers or by discounting projected cash flows. Assets and liabilities utilizing Level 3 inputs include certain bonds, certain asset-backed securities, some private equities, some mortgage loans, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, investment properties and equity-release mortgages.

NOTE 18 Fair Value Measurement (continued)

The following table presents the Corporation's assets and liabilities recorded at fair value, including their levels in the fair value hierarchy using the valuation methods and assumptions described in the summary of significant accounting policies of the Corporation's December 31, 2017 financial statements and above. Fair values are management's estimates and are generally calculated using market information at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, and involve uncertainties and matters of significant judgment.

June 30, 2018	Level 1	Level 2	Level 3	Total fair value
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	-	90,308	66	90,374
Available for sale	-	13,735	-	13,735
Mortgage loans				
Fair value through profit or loss	-	135	768	903
Shares				
Fair value through profit or loss	8,431	2	285	8,718
Available for sale	716	13	767	1,496
Investment properties	-	-	5,098	5,098
Funds held by ceding insurers	173	7,318	-	7,491
Derivative instruments	5	394	14	413
Other assets	636	367	-	1,003
	9,961	112,272	6,998	129,231
Liabilities recorded at fair value				
Investment contract liabilities				
	-	1,748	21	1,769
Derivative instruments				
	2	1,272	7	1,281
Other liabilities				
	9	105	93	207
	11	3,125	121	3,257
December 31, 2017				
	Level 1	Level 2	Level 3	Total fair value
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	-	89,759	65	89,824
Available for sale	-	12,807	-	12,807
Mortgage loans				
Fair value through profit or loss	-	340	-	340
Shares				
Fair value through profit or loss	7,949	1	244	8,194
Available for sale	775	10	832	1,617
Investment properties	-	-	4,851	4,851
Funds held by ceding insurers	132	7,806	-	7,938
Derivative instruments	1	411	12	424
Other assets	503	389	-	892
	9,360	111,523	6,004	126,887
Liabilities recorded at fair value				
Investment contract liabilities				
	-	1,819	22	1,841
Derivative instruments				
	2	1,354	8	1,364
Other liabilities				
	9	-	88	97
	11	3,173	118	3,302

There were no significant transfers between Level 1 and Level 2 in these periods.

NOTE 18 Fair Value Measurement (continued)

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis for which the Corporation and its subsidiaries have utilized Level 3 inputs to determine fair value for the six months ended June 30, 2018 and 2017.

Six months ended June 30, 2018	Bonds	Mortgages	Shares			Derivatives, net	Other assets (liabilities)	Investment contract liabilities	Total
	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	Available for sale	Investment properties				
Balance, beginning of year	65	-	244	832	4,851	4	(88)	(22)	5,886
Total gains (losses)									
In net earnings	-	(37)	9	167	54	(4)	(2)	-	187
In other comprehensive income ^[1]	1	15	-	(114)	51	-	-	-	(47)
Business acquisition [Note 4]	-	799	-	-	-	-	-	-	799
Purchases	-	18	63	125	162	-	-	-	368
Sales	-	(27)	(31)	(243)	(20)	-	-	-	(321)
Settlements	-	-	-	-	-	7	-	-	7
Other	-	-	-	-	-	-	(3)	1	(2)
Balance, end of period	66	768	285	767	5,098	7	(93)	(21)	6,877

Six months ended June 30, 2017	Bonds	Mortgages	Shares			Derivatives, net	Other assets (liabilities)	Investment contract liabilities	Total
	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	Available for sale	Investment properties				
Balance, beginning of year	1	-	81	1,278	4,340	(23)	1	(20)	5,658
Total gains (losses)									
In net earnings	(1)	-	4	72	73	3	-	-	151
In other comprehensive income ^[1]	3	-	(1)	17	49	-	-	-	68
Purchases	-	-	69	45	262	-	-	-	376
Sales	-	-	(9)	(234)	(16)	-	(1)	-	(260)
Settlements	-	-	-	-	-	9	-	-	9
Other	-	-	-	-	-	-	-	(2)	(2)
Transfers into Level 3 ^[2]	59	-	4	17	-	-	-	-	80
Transfers out of Level 3 ^[3]	(1)	-	-	-	-	-	-	-	(1)
Balance, end of period	61	-	148	1,195	4,708	(11)	-	(22)	6,079

[1] Amount of other comprehensive income includes unrealized gains (losses) on foreign exchange.

[2] Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies.

[3] Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors or the lifting of redemption restrictions on investments in mutual funds and segregated funds.

NOTE 18 Fair Value Measurement (continued)

The following table sets out information about significant unobservable inputs used at period-end in measuring assets and liabilities categorized as Level 3 in the fair value hierarchy.

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 2.5% – 10.3%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 4.0% – 7.5%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 2.4%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage loans (fair value through profit or loss)	The valuation approach for equity-release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no-negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/entering into long-term care of the loanholders.	Discount rate	4.7%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
Shares	The determination of the fair value of shares requires the use of estimates such as future cash flows, discount rates, projected earnings multiples, or recent transactions.	Discount rate	Various	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

NOTE 19 Segmented Information

The Corporation's reportable operating segments are Lifeco, IGM Financial and Pargesa. These reportable segments reflect Power Corporation's management structure and internal financial reporting. The Corporation evaluates the performance based on the operating segment's contribution to earnings. The following provides a brief description of the three reportable operating segments:

- Lifeco is a financial services holding company with interests in life insurance, health insurance, retirement and investment management services, asset management and reinsurance businesses primarily in Canada, the United States and Europe.
- IGM Financial is a financial services company operating in Canada primarily within the advice segment of the financial services market. IGM earns revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenues from fees charged to its mutual funds for administrative services.
- Pargesa is held through Parjointco. Pargesa is a holding company with diversified interests in Europe-based companies active in various sectors: minerals-based specialty solutions for industry; testing, inspection and certification; cement, aggregates and concrete; wines and spirits; design and distribution of sportswear; materials technology and recycling of precious metals; oil, gas and chemical industries; disposable hygiene products; supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors; and operation of regional leisure parks.

The column entitled "Corporate" is comprised of corporate activities of Power Financial and the results of Wealthsimple and Portag3. This column also includes consolidation elimination entries.

The column entitled "Other" is comprised of corporate and investment activities of Power Corporation. It includes the results of Power Energy and Square Victoria Communications Group as well as the results of the Corporation's controlled portfolio investments, IntegraMed, as well as Vein Clinics (up to the date of disposal on December 29, 2017). This column also includes Power Corporation's consolidation elimination entries.

The contribution to earnings of each segment includes the share of net earnings resulting from the investments that Lifeco and IGM have in each other as well as certain consolidation adjustments.

NOTE 19 Segmented Information (continued)**CONSOLIDATED NET EARNINGS**

Three months ended June 30, 2018	Power Financial						Total
	Lifeco	IGM ^[1]	Pargesa	Corporate	Sub-total	Other	
Revenues							
Premium income, net	7,905	-	-	(6)	7,899	-	7,899
Net investment income	1,225	49	-	(31)	1,243	31	1,274
Fee income	1,483	760	-	(25)	2,218	5	2,223
Other revenues	-	-	-	-	-	213	213
Total revenues	10,613	809	-	(62)	11,360	249	11,609
Expenses							
Total paid or credited to policyholders	7,556	-	-	-	7,556	-	7,556
Commissions	596	270	-	(15)	851	-	851
Operating and administrative expenses	1,415	253	-	35	1,703	263	1,966
Financing charges	11	29	-	4	44	24	68
Total expenses	9,578	552	-	24	10,154	287	10,441
Earnings before investments in jointly controlled corporations and associates, and income taxes	1,035	257	-	(86)	1,206	(38)	1,168
Share of earnings (losses) of investments in jointly controlled corporations and associates	-	8	36	8	52	(40)	12
Earnings before income taxes	1,035	265	36	(78)	1,258	(78)	1,180
Income taxes	153	59	-	-	212	(1)	211
Net earnings	882	206	36	(78)	1,046	(77)	969
Attributable to							
Non-controlling interests	513	127	12	(39)	613	(4)	609
Non-participating shareholders	-	-	-	-	-	13	13
Participating shareholders	369	79	24	(39)	433	(86)	347
	882	206	36	(78)	1,046	(77)	969

[1] Results reported by IGM include an adjustment for the adoption of IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

NOTE 19 Segmented Information (continued)**CONSOLIDATED NET EARNINGS**

Three months ended June 30, 2017 [Note 3]	Power Financial					Other	Total
	Lifeco	IGM	Pargesa	Corporate	Sub-total		
Revenues							
Premium income, net	7,761	-	-	-	7,761	-	7,761
Net investment income	1,894	45	-	(32)	1,907	86	1,993
Fee income	1,421	753	-	(33)	2,141	-	2,141
Other revenues	-	-	-	-	-	214	214
Total revenues	11,076	798	-	(65)	11,809	300	12,109
Expenses							
Total paid or credited to policyholders	8,227	-	-	-	8,227	-	8,227
Commissions	609	285	-	(18)	876	-	876
Operating and administrative expenses	1,524	219	-	14	1,757	263	2,020
Financing charges	79	28	-	5	112	19	131
Total expenses	10,439	532	-	1	10,972	282	11,254
Earnings before investments in jointly controlled corporations and associates, and income taxes	637	266	-	(66)	837	18	855
Share of earnings (losses) of investments in jointly controlled corporations and associates	1	-	48	49	98	(8)	90
Earnings before income taxes	638	266	48	(17)	935	10	945
Income taxes	51	63	-	4	118	8	126
Net earnings	587	203	48	(21)	817	2	819
Attributable to							
Non-controlling interests	327	121	17	(4)	461	(5)	456
Non-participating shareholders	-	-	-	-	-	13	13
Participating shareholders	260	82	31	(17)	356	(6)	350
	587	203	48	(21)	817	2	819

NOTE 19 Segmented Information (continued)**CONSOLIDATED NET EARNINGS**

Six months ended June 30, 2018	Power Financial						Total
	Lifeco	IGM ^[1]	Pargesa	Corporate	Sub-total	Other	
Revenues							
Premium income, net	16,079	-	-	(11)	16,068	-	16,068
Net investment income	1,311	93	-	(56)	1,348	267	1,615
Fee income	2,916	1,517	-	(49)	4,384	8	4,392
Other revenues	-	-	-	-	-	390	390
Total revenues	20,306	1,610	-	(116)	21,800	665	22,465
Expenses							
Total paid or credited to policyholders	14,336	-	-	-	14,336	-	14,336
Commissions	1,190	556	-	(31)	1,715	-	1,715
Operating and administrative expenses	2,822	506	-	67	3,395	511	3,906
Financing charges	82	59	-	9	150	47	197
Total expenses	18,430	1,121	-	45	19,596	558	20,154
Earnings before investments in jointly controlled corporations and associates, and income taxes	1,876	489	-	(161)	2,204	107	2,311
Share of earnings (losses) of investments in jointly controlled corporations and associates	-	16	80	8	104	(35)	69
Earnings before income taxes	1,876	505	80	(153)	2,308	72	2,380
Income taxes	230	111	-	3	344	(1)	343
Net earnings	1,646	394	80	(156)	1,964	73	2,037
Attributable to							
Non-controlling interests	953	245	27	(77)	1,148	(9)	1,139
Non-participating shareholders	-	-	-	-	-	26	26
Participating shareholders	693	149	53	(79)	816	56	872
	1,646	394	80	(156)	1,964	73	2,037

[1] Results reported by IGM include an adjustment for the adoption of IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".

NOTE 19 Segmented Information (continued)**CONSOLIDATED NET EARNINGS**

Six months ended June 30, 2017 [Note 3]	Power Financial					Other	Total
	Lifeco	IGM	Pargesa	Corporate	Sub-total		
Revenues							
Premium income, net	17,115	-	-	-	17,115	-	17,115
Net investment income	4,080	93	-	(68)	4,105	114	4,219
Fee income	2,769	1,495	-	(74)	4,190	-	4,190
Other revenues	-	-	-	-	-	394	394
Total revenues	23,964	1,588	-	(142)	25,410	508	25,918
Expenses							
Total paid or credited to policyholders	18,089	-	-	-	18,089	-	18,089
Commissions	1,422	575	-	(44)	1,953	-	1,953
Operating and administrative expenses	2,934	466	-	18	3,418	508	3,926
Financing charges	155	55	-	9	219	38	257
Total expenses	22,600	1,096	-	(17)	23,679	546	24,225
Earnings before investments in jointly controlled corporations and associates, and income taxes	1,364	492	-	(125)	1,731	(38)	1,693
Share of earnings (losses) of investments in jointly controlled corporations and associates	19	-	94	34	147	(4)	143
Earnings before income taxes	1,383	492	94	(91)	1,878	(42)	1,836
Income taxes	147	110	-	4	261	2	263
Net earnings	1,236	382	94	(95)	1,617	(44)	1,573
Attributable to							
Non-controlling interests	714	232	33	(36)	943	(4)	939
Non-participating shareholders	-	-	-	-	-	26	26
Participating shareholders	522	150	61	(59)	674	(66)	608
	1,236	382	94	(95)	1,617	(44)	1,573

NOTE 19 Segmented Information (continued)**TOTAL ASSETS**

June 30, 2018	Power Financial						Total
	Lifeco	IGM ^[2]	Pargesa	Corporate	Sub-total	Other	
Invested assets (including cash and cash equivalents)	172,930	8,800	-	1,155	182,885	2,297	185,182
Investments in jointly controlled corporations and associates	7	670	3,551	21	4,249	1,172	5,421
Other assets	25,905	1,135	-	96	27,136	923	28,059
Goodwill and intangible assets	10,761	4,108	-	163	15,032	1,029	16,061
Investments on account of segregated fund policyholders	221,117	-	-	-	221,117	-	221,117
Total assets ^[1]	430,720	14,713	3,551	1,435	450,419	5,421	455,840

December 31, 2017	Power Financial						Total
	Lifeco	IGM	Pargesa	Corporate	Sub-total	Other	
Invested assets (including cash and cash equivalents)	167,480	9,073	-	1,113	177,666	2,188	179,854
Investments in jointly controlled corporations and associates	2	648	3,354	12	4,016	1,138	5,154
Other assets	24,635	1,139	-	83	25,857	926	26,783
Goodwill and intangible assets	10,371	4,789	-	168	15,328	1,045	16,373
Investments on account of segregated fund policyholders	217,357	-	-	-	217,357	-	217,357
Total assets ^[1]	419,845	15,649	3,354	1,376	440,224	5,297	445,521

[1] Total assets of Lifeco and IGM operating segments include the allocation of goodwill and certain consolidation adjustments.

[2] Assets reported by IGM include an adjustment for the adoption of IFRS 9 related to the classification of mortgage loans. As the Corporation has not yet adopted IFRS 9, this impact has been adjusted by the Corporation on consolidation and included in "Corporate".