



Quarterly Report to Shareholders

Second Quarter Results

For the period ended June 30, 2018

Quarterly Report to Shareholders

For cautionary notes regarding forward-looking information and non-IFRS financial measures, see page 5.

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QUARTERLY REPORT TO THE SHAREHOLDERS

January 1 to June 30, 2018 Six Months Results

The condensed consolidated interim unaudited financial statements including notes at June 30, 2018 were approved by the Board of Directors at a meeting held today in Toronto.

Great-West Lifeco Inc. (Lifeco or the Company) today announced net earnings attributable to common shareholders (net earnings) of \$831 million or \$0.839 per common share for the second quarter of 2018 compared to \$585 million or \$0.591 per common share for the same quarter last year. Excluding 2017 restructuring costs, Lifeco's adjusted net earnings in the second quarter of 2017 were \$712 million. Net earnings in the second quarter of 2018 increased \$119 million or 17% compared to adjusted net earnings of \$712 million reflecting earnings growth in each segment. Lifeco's net earnings for the second quarter of 2018 included a net positive impact of \$60 million after-tax, or \$0.061 per common share, from the restructuring of U.S. financing as a consequence of U.S. tax reform and the refinancing of certain debt instruments.

For the six months ended June 30, 2018, Lifeco's net earnings were \$1,562 million or \$1.579 per common share compared to adjusted net earnings of \$1,331 million or \$1.345 per common share for the same period last year.

Highlights – In Quarter

Sales of \$33.1 billion up 32%

- Sales for the second quarter of 2018 were \$33.1 billion, up 32% from the second quarter of 2017, driven by a 45% increase in the U.S. and a 14% increase in Europe.

Fee and other income of \$1.5 billion up 4%

- Fee and other income was \$1.5 billion, up 4% from the second quarter of 2017, driven by business growth in all segments and market performance.

Capital strength and financial flexibility maintained

- The Great-West Life Assurance Company reported a Life Insurance Capital Adequacy Test (LICAT) ratio of 133% at June 30, 2018.
- Lifeco declared a quarterly common dividend of \$0.3890 per common share payable September 28, 2018.
- During the second quarter of 2018, the Company, through its subsidiaries, issued \$1,024 million (US\$800 million) of senior notes and redeemed two tranches of subordinated debentures totaling \$899 million.
- Adjusted return on equity (ROE) for the second quarter of 2018 was 14.2%. The adjusted ROE excludes the impact of U.S. tax reform, a net charge on the sale of an equity investment and restructuring costs included in the prior year results.
- Consolidated assets under administration at June 30, 2018 were over \$1.4 trillion, a 5% increase from December 31, 2017.

SEGMENTED OPERATING RESULTS

For reporting purposes, Lifeco's consolidated operating results are grouped into four reportable segments - Canada, United States, Europe and Lifeco Corporate - reflecting geographic lines as well as the management and corporate structure of the Company. For more information, please refer to the Company's 2018 second quarter Management's Discussion and Analysis (MD&A).

CANADA

- **Q2 Canada segment net earnings up 7%** – Net earnings attributable to common shareholders for the second quarter of 2018 were \$334 million compared to adjusted net earnings of \$311 million in the second quarter of 2017, an increase of 7%, primarily reflecting strong Group Customer morbidity results and positive contributions from insurance contract liability basis changes. For the six months ended June 30, 2018, net earnings were \$650 million compared to adjusted net earnings of \$566 million for the same period last year. Adjusted net earnings in 2017 exclude restructuring costs of \$126 million.
- **Canada advances business transformation** – The Canadian operations made progress on the previously announced targeted annual expense reductions of \$200 million pre-tax. As of June 30, 2018, the Company has achieved approximately \$170 million pre-tax in annualized expense reductions; approximately \$131 million related to the common shareholders' account and \$39 million related to the participating accounts.

UNITED STATES

- **Q2 U.S. segment net earnings up 6% excluding impact of U.S. debt refinancing** – Net earnings attributable to common shareholders for the second quarter of 2018, excluding the net positive impact of US\$39 million related to U.S. debt refinancing activity, were US\$66 million, up 6%, compared to US\$62 million in the second quarter of 2017. The increase was primarily due to net growth in the business and the benefit of a lower U.S. corporate tax rate. For the six months ended June 30, 2018, net earnings were US\$164 million, or US\$125 million excluding the refinancing impact, compared to US\$104 million for the same period last year.
- **Q2 U.S. segment fee and other income up 3%** – Fee and other income for the three months ended June 30, 2018 was US\$508 million compared to US\$491 million for the same quarter last year, an increase of 3%, due to growth in Empower Retirement participants and assets.
- **Putnam average assets up 7%** – Putnam average assets under management for the three months ended June 30, 2018 were US\$172.8 billion compared to US\$161.8 billion for the same quarter last year, an increase of 7%, primarily due to the cumulative impact of positive markets over the twelve month period. Putnam ending assets under management at June 30, 2018 were US\$172.4 billion.
- **Strong net asset inflows at Putnam** – Putnam's net asset inflows for the three months ended June 30, 2018 were US\$1.6 billion, which were the highest since the second quarter of 2011. Included in the net asset inflows for the three months ended June 30, 2018 of US\$1.6 billion, were mutual fund net inflows of US\$0.6 billion, which were the highest since the fourth quarter of 2014.

EUROPE

- **Q2 Europe segment net earnings up 11%** – Net earnings attributable to common shareholders for the second quarter of 2018 were \$355 million, up 11%, compared to \$321 million in the second quarter of 2017, primarily driven by a higher impact from insurance contract liability basis changes mainly reflecting longevity assumption updates, partially offset by lower contributions from investment experience. For the six months ended June 30, 2018, net earnings were \$699 million compared to \$610 million for the same period last year.
- **Q2 Europe segment sales up 14%** – Sales for the second quarter of 2018 were \$5.5 billion, an increase of 14% compared to the same quarter last year reflecting the inclusion of Retirement Advantage sales and strong growth across most products.
- **Acquisition of strategic holding in financial consultancy Invesco Ltd (Ireland) announced** – On April 20, 2018, the Company announced that its subsidiary, Irish Life Group Limited, reached an agreement to acquire a strategic holding in Invesco Ltd (Ireland), Ireland's largest Irish-owned independent financial consultancy firm. The acquisition is subject to regulatory approval and customary closing conditions, and is expected to be completed in the third quarter of 2018.
- **Sale of heritage policies to Scottish Friendly announced** – Canada Life Limited, a U.K. subsidiary of the Company, agreed to sell a block of 155,000 heritage policies with assets and liabilities of £2.7 billion to Scottish Friendly. Canada Life Investments, a U.K. subsidiary of the Company, will continue to manage a substantial portion of the transferring unit-linked assets. The block has largely been closed to new business since 2003 and comprises individual life savings policies, individual pensions saving policies and individual protection policies. The transfer of these policies to Scottish Friendly is subject to regulatory approval and the satisfactory completion of certain closing conditions, and is expected to occur in late 2019. This sale, together with the integration of the Retirement Advantage business, will act as an enabler to help move forward in transforming the U.K. business to increase focus on the retirement market to serve the evolving needs of customers and support future growth.

GREAT-WEST LIFECO INC.

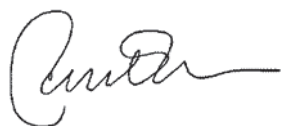
QUARTERLY DIVIDENDS

At its meeting today, the Board of Directors approved a quarterly dividend of \$0.3890 per share on the common shares of Lifeco payable September 28, 2018 to shareholders of record at the close of business August 31, 2018.

In addition, the Directors approved quarterly dividends on Lifeco's preferred shares, as follows:

First Preferred Shares	Record Date	Payment Date	Amount, per share
Series F	August 31, 2018	September 28, 2018	\$0.36875
Series G	August 31, 2018	September 28, 2018	\$0.3250
Series H	August 31, 2018	September 28, 2018	\$0.30313
Series I	August 31, 2018	September 28, 2018	\$0.28125
Series L	August 31, 2018	September 28, 2018	\$0.353125
Series M	August 31, 2018	September 28, 2018	\$0.3625
Series N	August 31, 2018	September 28, 2018	\$0.1360
Series O	August 31, 2018	September 28, 2018	\$0.163835
Series P	August 31, 2018	September 28, 2018	\$0.3375
Series Q	August 31, 2018	September 28, 2018	\$0.321875
Series R	August 31, 2018	September 28, 2018	\$0.3000
Series S	August 31, 2018	September 28, 2018	\$0.328125
Series T	August 31, 2018	September 28, 2018	\$0.321875

For purposes of the Income Tax Act (Canada), and any similar provincial legislation, the dividends referred to above are eligible dividends.



P. A. Mahon
President and Chief Executive Officer

August 1, 2018

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2018
DATED: August 1, 2018**

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the six months ended June 30, 2018 and includes a comparison to the corresponding period in 2017, to the three months ended March 31, 2018, and to the Company's financial condition as at December 31, 2017. This MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's three major reportable segments: Canada, United States (U.S.) and Europe.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The condensed consolidated interim unaudited financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and are presented in millions of Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018. Also refer to the 2017 Annual MD&A and consolidated financial statements in the Company's 2017 Annual Report.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A may contain forward-looking statements. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and other similar expressions or negative versions thereof. These statements may include, without limitation, statements about the Company's operations, business, financial condition, expected financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future actions by the Company, including statements made with respect to the expected benefits of acquisitions and divestitures. Forward-looking statements are based on expectations, forecasts, estimates, predictions, projections and conclusions about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and the reader is cautioned that actual events and results could differ materially from those expressed or implied by forward-looking statements. Material factors and assumptions that were applied in formulating the forward-looking information contained herein include the assumption that the business and economic conditions affecting the Company's operations will continue substantially in their current state, including, without limitation, with respect to customer behaviour, the Company's reputation, market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, reinsurance arrangements, liquidity requirements, capital requirements, credit ratings, taxes, inflation, interest and foreign exchange rates, investment values, hedging activities, global equity and capital markets, business competition and other general economic, political and market factors in North America and internationally. Many of these assumptions are based on factors and events that are not within the control of the Company and there is no assurance that they will prove to be correct. Other important factors and assumptions that could cause actual results to differ materially from those contained in forward-looking statements include customer responses to new products, impairments of goodwill and other intangible assets, the Company's ability to execute strategic plans and changes to strategic plans, technological changes, breaches or failure of information systems and security (including cyber attacks), payments required under investment products, changes in local and international laws and regulations, changes in accounting policies and the effect of applying future accounting policy changes, unexpected judicial or regulatory proceedings, catastrophic events, continuity and availability of personnel and third party service providers, the Company's ability to complete strategic transactions and integrate acquisitions and unplanned material changes to the Company's facilities, customer and employee relations or credit arrangements. The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in other filings with securities regulators, including factors set out in the Company's 2017 Annual MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates", which, along with other filings, is available for review at www.sedar.com. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES

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

CONSOLIDATED OPERATING RESULTS

Selected consolidated financial information
(in Canadian \$ millions)

	As at or for the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Premiums and deposits:					
Amounts reported in the financial statements					
Net premium income (Life insurance, guaranteed annuities and insured health products)	\$ 7,905	\$ 8,174	\$ 7,761	\$ 16,079	\$ 17,115
Policyholder deposits (segregated funds):					
Individual products	4,142	3,988	4,142	8,130	8,039
Group products	1,954	2,422	2,020	4,376	4,205
Premiums and deposits reported in the financial statements	14,001	14,584	13,923	28,585	29,359
Self-funded premium equivalents (Administrative services only contracts) ⁽¹⁾	774	748	720	1,522	1,436
Proprietary mutual funds and institutional deposits ⁽¹⁾	19,196	17,794	13,767	36,990	31,153
Total premiums and deposits⁽¹⁾⁽²⁾	33,971	33,126	28,410	67,097	61,948
Fee and other income⁽²⁾	1,483	1,433	1,421	2,916	2,769
Net policyholder benefits, dividends and experience refunds	7,588	7,829	7,377	15,417	15,920
Earnings					
Net earnings - common shareholders	\$ 831	\$ 731	\$ 585	\$ 1,562	\$ 1,176
Adjustments ⁽⁷⁾	—	—	127	—	155
Adjusted net earnings - common shareholders ⁽⁷⁾	831	731	712	1,562	1,331
Per common share					
Basic earnings	0.839	0.740	0.591	1.579	1.189
Adjusted basic earnings ⁽⁷⁾	0.839	0.740	0.719	1.579	1.345
Dividends paid	0.389	0.389	0.367	0.778	0.734
Book value	21.22	21.01	19.95		
Return on common shareholders' equity⁽³⁾					
Net earnings	12.5%	11.4%	13.0%		
Adjusted net earnings ⁽⁷⁾	14.2%	13.8%	13.9%		
Total assets per financial statements⁽⁴⁾	\$ 430,695	\$ 432,651	\$ 409,511		
Proprietary mutual funds and institutional net assets ⁽⁵⁾	294,890	285,843	271,686		
Total assets under management⁽⁵⁾	725,585	718,494	681,197		
Other assets under administration ⁽⁶⁾	697,680	673,597	627,633		
Total assets under administration	\$ 1,423,265	\$ 1,392,091	\$ 1,308,830		
Total equity	\$ 26,620	\$ 26,435	\$ 25,428		

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

⁽²⁾ Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers*, as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018.

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

⁽⁴⁾ Comparative figures have been reclassified as described in note 2 and note 34 to the Company's December 31, 2017 annual consolidated financial statements.

⁽⁵⁾ Total assets under management (a non-IFRS financial measure) provides an indicator of the size and volume of the overall business of the Company. Services provided in respect of assets under management include the selection of investments, the provision of investment advice and discretionary portfolio management on behalf of clients. This includes internally and externally managed funds where the Company has oversight of the investment policies.

- (6) Other assets under administration (a non-IFRS financial measure) includes assets where the Company only provides administration services for which the Company earns fee and other income. These assets are beneficially owned by clients and the Company does not direct the investing activities. Services provided relating to assets under administration includes recordkeeping, safekeeping, collecting investment income, settling of transactions or other administrative services. Administrative services are an important aspect of the overall business of the Company and should be considered when comparing volume, size and trends.
- (7) Adjusted net earnings attributable to common shareholders and adjusted net earnings per common share (EPS) are non-IFRS measures of earnings performance. For the second quarter of 2018, adjustments were nil (nil for the first quarter of 2018). The following adjustments were made for the six months ending June 30, 2017:

	Segment			Total	EPS Impact
	Canada	United States	Europe		
2017 Adjustments:					
Q1 Restructuring costs	\$ —	\$ 11	\$ 17	\$ 28	\$ 0.029
Q2 Restructuring costs	126	—	1	127	0.128
Total Adjustments	\$ 126	\$ 11	\$ 18	\$ 155	\$ 0.156

NET EARNINGS

Consolidated net earnings of Lifeco include the net earnings of The Great-West Life Assurance Company (Great-West Life) and its operating subsidiaries, London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life) and Irish Life Group Limited (Irish Life); Great-West Life & Annuity Insurance Company (Great-West Financial) and Putnam Investments, LLC (Putnam); together with Lifeco's Corporate operating results.

Lifeco's net earnings attributable to common shareholders (net earnings) for the three month period ended June 30, 2018 were \$831 million compared to \$731 million in the previous quarter and adjusted net earnings of \$712 million a year ago. On a per share basis, this represents \$0.839 per common share (\$0.839 diluted) compared to \$0.740 per common share (\$0.739 diluted) in the previous quarter and \$0.719 per common share (\$0.718 diluted) a year ago. Lifeco's net earnings for the second quarter of 2018 included a net positive impact of \$60 million after-tax, which increased earnings per common share by \$0.061, arising from the restructuring of U.S. financing completed in the quarter as a consequence of U.S. tax reform and the refinancing of certain debt instruments. Adjusted net earnings in the second quarter of 2017 exclude \$127 million related to restructuring costs primarily in the Canada segment.

For the six months ended June 30, 2018, Lifeco's net earnings were \$1,562 million compared to adjusted net earnings of \$1,331 million a year ago. On a per share basis, this represents \$1.579 per common share (\$1.578 diluted) for 2018 compared to \$1.345 per common share (\$1.343 diluted) a year ago. Adjusted net earnings for the six months ended June 30, 2017 exclude restructuring costs of \$155 million related to all segments.

Net earnings - common shareholders

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Canada					
Individual Customer	\$ 211	\$ 138	\$ 140	\$ 349	\$ 286
Group Customer	194	142	189	336	293
Canada Corporate ⁽¹⁾	(71)	36	(144)	(35)	(139)
	334	316	185	650	440
United States					
Financial Services	101	91	88	192	173
Asset Management	(8)	(16)	(6)	(24)	(22)
U.S. Corporate ⁽¹⁾⁽²⁾	52	—	—	52	(13)
	145	75	82	220	138
Europe					
Insurance & Annuities	281	244	239	525	464
Reinsurance	97	104	83	201	164
Europe Corporate ⁽¹⁾	(23)	(4)	(1)	(27)	(18)
	355	344	321	699	610
Lifeco Corporate	(3)	(4)	(3)	(7)	(12)
Net earnings - common shareholders	\$ 831	\$ 731	\$ 585	\$ 1,562	\$ 1,176
Adjustments ⁽¹⁾					
Restructuring costs	—	—	127	—	155
Adjusted net earnings - common shareholders	\$ 831	\$ 731	\$ 712	\$ 1,562	\$ 1,331

⁽¹⁾ Adjustments to net earnings are included in the Corporate business units of the Canada, Europe and U.S. segments.

⁽²⁾ U.S. Corporate net earnings for the second quarter of 2018 included a net positive impact of \$60 million after-tax arising from the restructuring of U.S. financing completed in the quarter as a consequence of U.S. tax reform and the refinancing of certain debt instruments.

The information in the table above is a summary of results for net earnings of the Company. Additional commentary regarding net earnings is included in the "Segmented Operating Results" section.

MARKET IMPACTS

Interest Rate Environment

Interest rates in countries where the Company operates mostly increased during the quarter. The net change in interest rates did not impact the range of interest rate scenarios tested through the valuation process. The net change in interest rates did not have a material impact on net earnings or on the Life Insurance Capital Adequacy Test (LICAT) ratio.

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

For a further description of the Company's sensitivity to interest rate fluctuations, refer to Financial Instruments Risk Management, note 5 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018.

Equity Markets

In the regions where the Company operates, average equity market levels in the second quarter of 2018 mostly increased compared to the same period in 2017 and ended the quarter at higher market levels compared to March 31, 2018. Relative to the Company's expectation, the change in average market levels and market volatility had a negative impact of \$1 million on net earnings during the second quarter of 2018 and a positive impact of \$1 million year-to-date in 2018 (\$4 million positive impact in the second quarter of 2017 and \$9 million positive impact year-to-date in 2017), related to asset-based fee income and the costs related to guarantees of death, maturity or income benefits within certain wealth management products offered by the Company. In addition, net earnings were positively impacted by approximately \$5 million in the second quarter of 2018 and \$11 million year-to-date in 2018 (\$5 million positive impact in the second quarter of 2017 and \$14 million positive impact year-to-date in 2017), related to seed money investments held in the U.S. Asset Management and Canada Corporate business units.

Comparing the second quarter of 2018 to the second quarter of 2017, average equity market levels were up by 3% in Canada (as measured by S&P TSX), 13% in the U.S. (measured by S&P 500), 2% in the U.K. (measured by FTSE 100) and down by 2% in broader Europe (measured by Euro Stoxx 50). The major equity indices finished the second quarter of 2018 up by 6% in Canada, 3% in the U.S., 8% in the U.K. and 1% in broader Europe compared to March 31, 2018.

Foreign Currency

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

The average currency translation rate for the second quarter of 2018 decreased for the U.S. dollar, and increased for the British pound and the euro compared to the second quarter of 2017. The overall impact of currency movement on the Company's net earnings for the three month period ended June 30, 2018 was an increase of \$5 million (\$22 million year-to-date) compared to translation rates a year ago.

From March 31, 2018 to June 30, 2018, the market rates at the end of the reporting period used to translate British pound and euro assets and liabilities to the Canadian dollar decreased. For the U.S. dollar, the June 30, 2018 end-of-period rates increased from March 31, 2018. The movements in end-of-period market rates resulted in unrealized foreign exchange losses from the translation of foreign operations, including related hedging activities, of \$287 million in-quarter (\$399 million net unrealized gains year-to-date) recorded in other comprehensive income.

Translation rates for the reporting period and comparative periods are detailed in the "Translation of Foreign Currency" section.

ACTUARIAL ASSUMPTION CHANGES

During the second quarter of 2018, the Company updated a number of actuarial assumptions resulting in a positive net earnings impact of \$209 million, compared to \$36 million for the same quarter last year and \$121 million for the previous quarter. In Europe, net earnings were positively impacted by \$138 million primarily due to updated annuitant mortality, partially offset by updated life mortality assumptions. In Canada, net earnings were positively impacted by \$69 million primarily due to updated after-tax return assumptions for certain assets, partially offset by updated policyholder behaviour assumptions. In the U.S., net earnings were positively impacted by \$2 million primarily due to modeling refinements.

For the six months ended June 30, 2018, actuarial assumption changes resulted in a positive net earnings impact of \$330 million, compared to \$74 million for the same period in 2017.

PREMIUMS AND DEPOSITS AND SALES

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

Sales (a non-IFRS financial measure) for risk-based insurance and annuity products include 100% of single premium and annualized premiums expected in the first twelve months of the plan. Group insurance and ASO sales reflect annualized premiums and premium equivalents for new policies and new benefits covered or expansion of coverage on existing policies. For individual wealth management products, sales include deposits on segregated fund products, proprietary mutual funds and institutional accounts as well as deposits on non-proprietary mutual funds. For group wealth management products, sales include assets transferred from previous plan providers and the expected annual contributions from the new plan. This measure provides an indicator of new business growth.

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Premiums and deposits					
Canada					
Individual Customer	\$ 2,564	\$ 2,616	\$ 2,640	\$ 5,180	\$ 5,572
Group Customer ⁽¹⁾	3,774	4,437	3,930	8,211	7,946
	6,338	7,053	6,570	13,391	13,518
United States					
Financial Services	3,182	3,110	3,078	6,292	6,676
Asset Management	15,002	13,235	10,119	28,237	24,079
	18,184	16,345	13,197	34,529	30,755
Europe					
Insurance & Annuities	6,240	6,412	5,623	12,652	10,778
Reinsurance	3,209	3,316	3,020	6,525	6,897
	9,449	9,728	8,643	19,177	17,675
Total premiums and deposits⁽¹⁾	\$ 33,971	\$ 33,126	\$ 28,410	\$ 67,097	\$ 61,948
Sales					
Canada	\$ 3,040	\$ 3,822	\$ 3,233	\$ 6,862	\$ 6,896
United States	24,508	25,076	16,934	49,584	41,286
Europe - Insurance & Annuities	5,535	5,739	4,835	11,274	9,251
Total sales	\$ 33,083	\$ 34,637	\$ 25,002	\$ 67,720	\$ 57,433

⁽¹⁾ Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers*, as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018.

The information in the table above is a summary of results for the Company's total premiums and deposits and sales. Additional commentary regarding premiums and deposits and sales is included in the "Segmented Operating Results" section.

NET INVESTMENT INCOME

Net investment income	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Investment income earned (net of investment properties expenses)	\$ 1,583	\$ 1,543	\$ 1,587	\$ 3,126	\$ 3,061
Net allowances for credit losses on loans and receivables	—	—	6	—	2
Net realized gains	24	61	26	85	56
Regular investment income	1,607	1,604	1,619	3,211	3,119
Investment expenses	(32)	(31)	(28)	(63)	(59)
Regular net investment income	1,575	1,573	1,591	3,148	3,060
Changes in fair value through profit or loss	(350)	(1,487)	304	(1,837)	1,039
Net investment income	\$ 1,225	\$ 86	\$ 1,895	\$ 1,311	\$ 4,099

Net investment income in the second quarter of 2018, which includes changes in fair value through profit or loss, decreased by \$670 million compared to the same quarter last year. The changes in fair value in the second quarter of 2018 were a decrease of \$350 million compared to an increase of \$304 million for the second quarter of 2017. In the second quarter of 2018, the decrease was primarily due to an increase in U.S. and Canadian bond yields; while in the second quarter of 2017, the bond yield movement was mixed resulting in increases in fair value in Canada and the U.S. being partly offset by declines in the U.K.

Regular net investment income in the second quarter of 2018 of \$1,575 million, which excludes changes in fair value through profit or loss, decreased by \$16 million compared to the same quarter last year. Investment income earned declined slightly due to currency movement as the impact of the strengthening of the Canadian dollar against the U.S. dollar was partially offset by the impact of the British pound and euro strengthening against the Canadian dollar compared to the same quarter last year. Net realized gains include losses on available-for-sale securities of \$2 million for the second quarter of 2018 compared to gains of \$12 million for the same quarter last year. Net realized gains also include realized gains arising from the restructuring of U.S. financing completed in the quarter.

For the six months ended June 30, 2018, net investment income decreased by \$2,788 million compared to the same period last year. The changes in fair value for the six month period in 2018 were a decrease of \$1,837 million compared to an increase of \$1,039 million during the same period in 2017. The decrease was primarily due to an increase in bond yields across all geographies in the first half of 2018; while in the previous year, the movement of bond yields was mixed with increases in fair values in Canada and the U.S. being partly offset by declines in the U.K.

Regular net investment income for the six months ended June 30, 2018 increased by \$88 million compared to the same period last year. The increase was primarily due to higher interest on bond investments and higher net realized gains primarily driven by early mortgage redemptions. Net realized gains include losses on available-for-sale securities of \$3 million for the six months ended June 30, 2018 compared to gains of \$20 million for the same period last year.

Net investment income in the second quarter of 2018 increased by \$1,139 million compared to the previous quarter, primarily due to a decrease in fair values of \$350 million in the second quarter of 2018 compared to a decrease of \$1,487 million in the previous quarter. Fair values decreased less during the second quarter of 2018 compared to the previous quarter, primarily due to a smaller increase in bond yields and an increase in the Canadian equity markets, compared to a decline in the Canadian equity markets in the first quarter of 2018.

Credit Markets

In the second quarter of 2018, the Company experienced net recoveries on impaired investments, including dispositions, which positively impacted common shareholders' net earnings by \$1 million (negligible impact in the second quarter of 2017). Changes in credit ratings in the Company's fixed income portfolio resulted in a net decrease in provisions for future credit losses in insurance contract liabilities, which positively impacted common shareholders' net earnings by \$7 million (\$3 million net positive impact in the second quarter of 2017).

For the six months ended June 30, 2018, the Company experienced net recoveries on impaired investments, including dispositions, which positively impacted common shareholders' net earnings by \$8 million (\$1 million net charge year-to-date in 2017). Changes in credit ratings in the Company's fixed income portfolio resulted in a net decrease in provisions for future credit losses in insurance contract liabilities, which positively impacted common shareholders' net earnings by \$3 million year-to-date (\$6 million net positive impact year-to-date in 2017).

FEE AND OTHER INCOME

In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products are segregated funds and mutual funds, for which the Company earns investment management fees on assets managed and other fees, as well as ASO contracts, under which the Company provides group benefit plan administration on a cost-plus basis.

Effective January 1, 2018 the Company adopted IFRS 15, *Revenue from Contracts with Customers*, which resulted in reclassifications to certain revenues and expenses. Comparative figures for fee and other income have been reclassified to reflect the revised presentation as described in the "International Financial Reporting Standard" section and in note 2 to the Company's June 30, 2018 condensed consolidated interim unaudited financial statements.

Fee and other income	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Canada					
Segregated funds, mutual funds and other ⁽¹⁾	\$ 383	\$ 390	\$ 368	\$ 773	\$ 724
ASO contracts ⁽¹⁾	50	48	49	98	98
	433	438	417	871	822
United States					
Segregated funds, mutual funds and other ⁽¹⁾	655	631	658	1,286	1,277
Europe					
Segregated funds, mutual funds and other	395	364	346	759	670
Total fee and other income⁽¹⁾	\$ 1,483	\$ 1,433	\$ 1,421	\$ 2,916	\$ 2,769

⁽¹⁾ Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers*, as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018.

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

NET POLICYHOLDER BENEFITS, DIVIDENDS AND EXPERIENCE REFUNDS

Net policyholder benefits, dividends and experience refunds	For the three months ended			For the six months ended	
	June 30	March 31	June 30	June 30	June 30
	2018	2018	2017	2018	2017
Canada	\$ 2,369	\$ 2,378	\$ 2,329	\$ 4,747	\$ 4,845
United States	1,037	1,117	1,078	2,154	2,160
Europe	4,182	4,334	3,970	8,516	8,915
Total	\$ 7,588	\$ 7,829	\$ 7,377	\$ 15,417	\$ 15,920

Net policyholder benefits, dividends and experience refunds include life and health claims, policy surrenders, maturities, annuity payments, segregated fund guarantee payments, policyholder dividends and experience refund payments. The amounts do not include benefit payments for ASO contracts, segregated funds or mutual funds.

For the three months ended June 30, 2018, net policyholder benefits, dividends and experience refunds were \$7.6 billion, an increase of \$0.2 billion from the same period in 2017. The increase in benefit payments was primarily due to new reinsurance agreements partially offset by lower volumes relating to existing business.

For the six months ended June 30, 2018, net policyholder benefits, dividends and experience refunds were \$15.4 billion, a decrease of \$0.5 billion from the same period in 2017. The decrease in benefit payments was primarily due to restructured reinsurance agreements and lower volumes relating to existing business, partially offset by new reinsurance agreements.

Compared to the previous quarter, net policyholder benefits, dividends and experience refunds decreased by \$0.2 billion, primarily due to lower volumes relating to existing business partially offset by new reinsurance agreements.

INCOME TAXES

The Company's effective income tax rate is generally lower than the statutory income tax rate of 27% due to benefits related to non-taxable investment income and lower income tax in foreign jurisdictions.

In the second quarter of 2018, the Company had an effective income tax rate of 15%, up from 8% in the second quarter of 2017 primarily due to the second quarter of 2017 benefiting more from changes in certain tax estimates.

The Company had an effective income tax rate of 12% for the six months ended June 30, 2018 compared to 11% for the same period last year. The effective income tax rate for the six months ended June 30, 2018 was less favourably impacted by changes in certain tax estimates as compared to the previous year.

In the second quarter of 2018, the Company had an effective income tax rate of 15%, up from 9% in the first quarter of 2018 primarily due to changes in certain tax estimates.

CONSOLIDATED FINANCIAL POSITION

ASSETS

	June 30, 2018			
	Canada	United States	Europe	Total
Assets under administration				
Assets				
Invested assets	\$ 74,632	\$ 45,539	\$ 53,201	\$ 173,372
Goodwill and intangible assets	5,493	2,055	2,753	10,301
Other assets	2,970	4,101	18,834	25,905
Segregated funds net assets	81,361	33,508	106,248	221,117
Total assets	164,456	85,203	181,036	430,695
Proprietary mutual funds and institutional net assets	7,155	243,506	44,229	294,890
Total assets under management	171,611	328,709	225,265	725,585
Other assets under administration	13,632	642,276	41,772	697,680
Total assets under administration	\$ 185,243	\$ 970,985	\$ 267,037	\$ 1,423,265
	December 31, 2017			
	Canada	United States	Europe	Total
Assets				
Invested assets	\$ 73,110	\$ 44,263	\$ 50,562	\$ 167,935
Goodwill and intangible assets	5,447	1,975	2,489	9,911
Other assets	2,804	3,787	18,044	24,635
Segregated funds net assets	80,399	34,038	102,920	217,357
Total assets	161,760	84,063	174,015	419,838
Proprietary mutual funds and institutional net assets	6,810	232,623	39,521	278,954
Total assets under management	168,570	316,686	213,536	698,792
Other assets under administration	11,580	597,596	41,945	651,121
Total assets under administration	\$ 180,150	\$ 914,282	\$ 255,481	\$ 1,349,913

Total assets under administration at June 30, 2018 increased by \$73.4 billion to \$1.4 trillion compared to December 31, 2017, primarily due to the positive impacts of currency movement, new business growth and market movements. The increase of \$2.1 billion in the Canadian segment's other assets under administration was primarily due to the acquisition of EverWest Real Estate Partners (EverWest), a U.S. based real estate advisor, partially offset by the transition of real estate assets from GWL Realty Advisors to British Columbia Investment Management Corporation (bcIMC) in the first quarter of 2018.

INVESTED ASSETS

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. Within the framework of the Company's policies, the Company implements strategies and reviews and adjusts them on an ongoing basis in light of liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Bond portfolio – It is the Company's policy to acquire primarily investment grade bonds subject to prudent and well-defined investment policies. Modest investments in below investment grade rated securities may occur while not changing the overall discipline and conservative approach to the investment strategy. The total bond portfolio, including short-term investments, was \$122.4 billion or 71% of invested assets at June 30, 2018 and \$120.2 billion or 72% at December 31, 2017. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 80% rated A or higher.

Bond portfolio quality

	June 30, 2018		December 31, 2017	
AAA	\$ 23,318	19 %	\$ 24,889	21%
AA	33,095	27	32,405	27
A	41,329	34	40,328	33
BBB	23,736	19	21,449	18
BB or lower	959	1	1,133	1
Total	\$ 122,437	100 %	\$ 120,204	100%

Mortgage portfolio – It is the Company's practice to acquire only high quality commercial mortgages meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk-rating system, which it uses in its underwriting and credit monitoring processes for commercial loans. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well diversified across each geographic region, including specific diversification requirements for non-insured mortgages. With the acquisition of Retirement Advantage in the Europe segment, the Company acquired a portfolio of equity release mortgages, which 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. The Company will continue to originate equity release mortgages through Retirement Advantage.

Mortgage portfolio

Mortgage loans by type	June 30, 2018				December 31, 2017	
	Insured	Non-insured	Total		Total	
Single family residential	\$ 632	\$ 1,481	\$ 2,113	9%	\$ 2,139	10%
Multi-family residential	3,856	3,545	7,401	31	6,766	30
Equity release	—	768	768	3	—	—
Commercial	310	13,614	13,924	57	13,280	60
Total	\$ 4,798	\$ 19,408	\$ 24,206	100%	\$ 22,185	100%

The total mortgage portfolio was \$24.2 billion or 14% of invested assets at June 30, 2018, up from \$22.2 billion or 13% of invested assets at December 31, 2017. The increase was primarily due to the equity release mortgages acquired in the Retirement Advantage acquisition, net commercial mortgage originations and the impact of currency movement as the U.S. dollar strengthened against the Canadian dollar. The equity release mortgages had a weighted average loan-to-value of 23%. Total insured loans were \$4.8 billion or 20% of the mortgage portfolio.

Single family residential mortgages

Region	June 30, 2018		December 31, 2017	
	\$	%	\$	%
Ontario	1,041	50%	1,054	49%
Quebec	456	22	458	22
Alberta	130	6	135	6
British Columbia	117	6	120	6
Newfoundland	110	5	112	5
Saskatchewan	92	4	94	5
Nova Scotia	64	3	63	3
New Brunswick	50	2	50	2
Manitoba	48	2	49	2
Other	5	—	4	—
Total	\$ 2,113	100%	\$ 2,139	100%

During the six months ended June 30, 2018, single family mortgage originations, including renewals, were \$311 million, of which 25% were insured. Insured mortgages include mortgages where insurance is provided by a third party and protects the Company in the event that the borrower is unable to fulfill their mortgage obligations. Loans that are insured are subject to the requirements of the mortgage default insurance provider. For new originations of non-insured residential mortgages, the Company's investment policies limit the amortization period to a maximum of 25 years and the loan-to-value ratio to a maximum of 80% of the purchase price or current appraised value of the property. The weighted average remaining amortization period for the single family residential mortgage portfolio was 21 years as at June 30, 2018.

Provision for future credit losses

As a component of insurance contract liabilities, the total actuarial provision for future credit losses is determined consistent with the Canadian Institute of Actuaries' Standards of Practice and includes provisions for adverse deviation.

At June 30, 2018, the total actuarial provision for future credit losses in insurance contract liabilities was \$3,012 million compared to \$2,891 million at December 31, 2017, an increase of \$121 million, primarily due to the acquisition of Retirement Advantage, normal business activity and the impact of currency movement.

The aggregate of impairment provisions of \$27 million (\$41 million at December 31, 2017) and actuarial provisions for future credit losses in insurance contract liabilities of \$3,012 million (\$2,891 million at December 31, 2017) represents 2.0% of bond and mortgage assets, including funds held by ceding insurers, at June 30, 2018 (2.0% at December 31, 2017).

United Kingdom property related exposures

At June 30, 2018, the Company's holdings of property related investments in the U.K. were \$7.8 billion (\$6.8 billion at December 31, 2017), or 4.5% of invested assets. The \$1.0 billion increase from December 31, 2017 was primarily due to the addition of equity release mortgages through the acquisition of Retirement Advantage and the impact of currency movement as the British pound strengthened against the Canadian dollar. These holdings remain well diversified across property type.

DERIVATIVE FINANCIAL INSTRUMENTS

During the second quarter of 2018, there were no major changes to the Company's policies and procedures with respect to the use of derivative financial instruments. The Company's derivative transactions are generally governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements, which provide for legally enforceable set-off and close-out netting of exposure to specific counterparties in the event of an early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from a counterparty against payables to the same counterparty, in the same legal entity, arising out of all included transactions. The Company's ISDA Master Agreements may include Credit Support Annex provisions, which require both the pledging and accepting of collateral in connection with its derivative transactions.

At June 30, 2018, total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$35 million (\$77 million at December 31, 2017) and pledged on derivative liabilities was \$514 million (\$437 million at December 31, 2017). Collateral received on derivative assets decreased and collateral pledged on derivative liabilities increased in 2018, primarily driven by the impact of the strengthening U.S. dollar against the Canadian dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

During the six month period ended June 30, 2018, the outstanding notional amount of derivative contracts increased by \$3.9 billion to \$20.5 billion, primarily due to an increase in forward settling mortgage backed security transactions ("to-be-announced securities") and regular hedging activities.

The Company's exposure to derivative counterparty credit risk, which reflects the current fair value of those instruments in a gain position at June 30, 2018 was \$382 million, comparable to \$384 million at December 31, 2017.

LIABILITIES

Total liabilities	June 30 2018	December 31 2017
Insurance and investment contract liabilities	\$ 165,667	\$ 161,365
Other general fund liabilities	17,291	15,580
Investment and insurance contracts on account of segregated fund policyholders	221,117	217,357
Total	\$ 404,075	\$ 394,302

Total liabilities increased by \$9.8 billion to \$404.1 billion at June 30, 2018 from December 31, 2017. Insurance and investment contract liabilities increased by \$4.3 billion, primarily due to the strengthening of the British pound, euro and U.S. dollar against the Canadian dollar, the acquisition of Retirement Advantage as well as the impact of new business, partially offset by the impact of fair value adjustments. Insurance and investment contracts on account of segregated fund policyholders increased by \$3.8 billion, primarily due to the impact of currency movement of \$2.8 billion and the impact of net market value gains and investment income of \$1.9 billion partially offset by net withdrawals of \$1.3 billion.

Segregated Fund and Variable Annuity Guarantees

The Company offers retail segregated fund products, unitized with profits (UWP) products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds.

Guaranteed minimum withdrawal benefit (GMWB) products offered by the Company provide income guarantees and in addition, may provide death and maturity guarantees. At June 30, 2018, the amount of GMWB products in-force in Canada, the U.S., Ireland and Germany were \$4,349 million (\$4,225 million at December 31, 2017). The Company has a hedging program in place to manage certain risks associated with options embedded in its GMWB products.

Segregated fund and variable annuity guarantee exposure

	June 30, 2018				
	Market Value	Investment deficiency by benefit type			Total ⁽¹⁾
		Income	Maturity	Death	
Canada	\$ 32,735	\$ —	\$ 15	\$ 42	\$ 42
United States	13,102	22	—	35	56
Europe					
Insurance & Annuities	9,622	5	—	553	553
Reinsurance ⁽²⁾	1,105	252	—	9	261
Total Europe	10,727	257	—	562	814
Total	\$ 56,564	\$ 279	\$ 15	\$ 639	\$ 912

⁽¹⁾ A policy can only receive a payout from one of the three trigger events (income election, maturity or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on June 30, 2018.

⁽²⁾ Reinsurance exposure is to markets in Canada and the U.S.

The investment deficiency measures the point-in-time exposure to a trigger event (i.e., income election, maturity or death) assuming it occurred on June 30, 2018. The actual cost to the Company will depend on the trigger event having occurred and the market values at that time. The actual claims before tax associated with these guarantees were \$2 million in-quarter (\$3 million for the second quarter of 2017) and \$8 million year-to-date (\$9 million year-to-date for 2017) with the majority arising in the Reinsurance business unit in the Europe segment.

LIFECO CAPITAL STRUCTURE

In establishing the appropriate mix of capital required to support the operations of the Company and its subsidiaries, management utilizes a variety of debt, equity and other hybrid instruments giving consideration to both the short and long-term capital needs of the Company.

DEBENTURES AND OTHER DEBT INSTRUMENTS

At June 30, 2018, debentures and other debt instruments increased by \$414 million to \$6,031 million compared to December 31, 2017.

On February 28, 2018, the Company issued \$500 million aggregate principal amount of debentures maturing February 28, 2028. The debentures were issued at par and interest at the rate of 3.337% per annum will be payable semi-annually in arrears on February 28 and August 28 in each year. 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, the Company redeemed its 6.14% \$200 million debenture notes at their principal amount together with accrued interest.

On May 17, 2018, Great-West Lifeco Finance 2018, LP, a subsidiary of the Company, issued \$384 million (US\$300 million) aggregate principal amount 4.047% senior notes due May 17, 2028 and \$640 million (US\$500 million) aggregate principal amount 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, LP II, a subsidiary of the Company, redeemed all \$399 million (US\$300 million) aggregate principal amount 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. On redemption of the underlying debentures, a gain of \$65 million pre-tax (\$51 million after-tax) on the interest rate hedge were recognized within the U.S. Corporate results.

On June 26, 2018, Great-West Lifeco Finance (Delaware) LP II, a subsidiary of the Company, redeemed all \$500 million aggregate principal amount 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 debenture was hedged using a cross-currency swap designated as a cash-flow hedge. The redemption of debentures and derecognition of the swap, resulted in an increase of \$21 million pre-tax (\$13 million after-tax) to net earnings. Also as a result of this redemption, there was a loss on a foreign exchange forward that resulted in a net decrease of \$5 million pre-tax (\$4 million after-tax) to net earnings. The net of these items, \$16 million pre-tax (\$9 million after-tax), is included within the U.S. Corporate results.

SHARE CAPITAL AND SURPLUS

Share capital outstanding at June 30, 2018 was \$10,005 million, which comprises \$7,291 million of common shares, \$2,464 million of non-cumulative First Preferred Shares, \$213 million of 5-year rate reset First Preferred Shares and \$37 million of floating rate First Preferred Shares.

The Company commenced a normal course issuer bid (NCIB) on January 15, 2018 for one year to purchase and cancel up to 20,000,000 of its common shares at market prices in order to mitigate the dilutive effect of stock options granted under the Company's Stock Option Plan and for other capital management purposes. During the six months ended June 30, 2018, the Company repurchased and subsequently cancelled 857,048 common shares (2017 - 341,683) under its NCIB at an average cost per share of \$33.80 (2017 - \$35.54).

LIQUIDITY AND CAPITAL MANAGEMENT AND ADEQUACY

LIQUIDITY

The Company's liquidity requirements are largely self-funded, with short-term obligations being met by internal funds and maintaining adequate levels of liquid investments. The Company holds cash, cash equivalents and short-term bonds at the Lifeco holding company level and with the Lifeco consolidated subsidiary companies. At June 30, 2018, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of \$7.5 billion (\$7.3 billion at December 31, 2017) and other liquid assets and marketable securities of \$92.7 billion (\$93.8 billion at December 31, 2017). Included in the cash, cash equivalents and short-term bonds at June 30, 2018 was \$0.9 billion (\$0.5 billion at December 31, 2017) held at the Lifeco holding company level. In addition, the Company maintains sufficient committed lines of credit with Canadian chartered banks for unanticipated liquidity needs, if required.

The Company does not have a formal common shareholder dividend policy. Dividends on outstanding common shares of the Company are declared and paid at the sole discretion of the Board of Directors of the Company. The decision to declare a dividend on the common shares of the Company takes into account a variety of factors including the level of earnings, adequacy of capital and availability of cash resources.

As a holding company, the Company's ability to pay dividends is dependent upon the Company receiving dividends from its operating subsidiaries. The Company's operating subsidiaries are subject to regulation in a number of jurisdictions, each of which maintains its own regime for determining the amount of capital that must be held in connection with the different businesses carried on by the operating subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the operating subsidiaries to pay dividends to the Company.

CASH FLOWS

Cash flows	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
	Cash flows relating to the following activities:			
Operations	\$ 1,159	\$ 1,292	\$ 2,318	\$ 2,769
Financing	(296)	(368)	(532)	(936)
Investment	(615)	(571)	(1,618)	(1,689)
	<u>248</u>	<u>353</u>	<u>168</u>	<u>144</u>
Effects of changes in exchange rates on cash and cash equivalents	(49)	3	75	(5)
Increase (decrease) in cash and cash equivalents in the period	199	356	243	139
Cash and cash equivalents, beginning of period	3,595	3,042	3,551	3,259
Cash and cash equivalents, end of period	<u>\$ 3,794</u>	<u>\$ 3,398</u>	<u>\$ 3,794</u>	<u>\$ 3,398</u>

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

In the second quarter of 2018, cash and cash equivalents increased by \$199 million from March 31, 2018. Cash flows provided by operations during the second quarter of 2018 were \$1,159 million, a decrease of \$133 million compared to the second quarter of 2017. Cash flows used in financing were \$296 million, primarily used for the payment of dividends to common and preferred shareholders of \$418 million, partially offset by a net issuance in debentures and senior notes of \$136 million. For the three months ended June 30, 2018, cash flows were used by the Company to acquire an additional \$615 million of investment assets.

For the six months ended June 30, 2018, cash and cash equivalents increased by \$243 million from December 31, 2017. Cash flows provided by operations were \$2,318 million, a decrease of \$451 million compared to the same period in 2017. Cash flows used in financing were \$532 million, primarily used for the payment of dividends to common and preferred shareholders of \$836 million and a decrease in line of credit of subsidiary of \$120 million, partially offset by a net issuance in debentures and senior notes of \$416 million. In the first quarter of 2018, the Company increased the quarterly dividend to common shareholders from \$0.367 per common share to \$0.389 per common share. For the six months ended June 30, 2018, cash flows were used by the Company to acquire an additional \$1,618 million of investment assets and net business acquisitions.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations have not changed materially from December 31, 2017.

CAPITAL MANAGEMENT AND ADEQUACY

At the holding company level, the Company monitors the amount of consolidated capital available and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements, as well as the Company's internal assessment of capital requirements in the context of its risk profiles and requirements and strategic plans. The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate. The capitalization decisions of the Company and its operating subsidiaries also give consideration to the impact such actions may have on the opinions expressed by various credit rating agencies that provide financial strength and other ratings to the Company.

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Life Insurance Capital Adequacy Test (LICAT). Effective January 1, 2018, the LICAT ratio replaced the prior Minimum Continuing Capital Surplus Requirements (MCCSR) ratio. The LICAT results are fundamentally different, and thus cannot be compared to the MCCSR ratio.

The LICAT ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer is calibrated so that a life insurer can both withstand severe stress events and have assets remaining to allow continued support of its existing business. The total Base Solvency Buffer is the aggregate of all OSFI defined capital requirements multiplied by a fixed scalar of 1.05. The total capital resources include equity items such as common shares, retained earnings and participating policyholders' surplus. There are deductions for goodwill, intangibles and some deferred tax assets. Assets backing certain provisions for adverse deviation within the insurance contract liabilities reported on the financial statements are also included in total capital resources.

OSFI has established a Supervisory Target Total Ratio of 100%, and a Supervisory Minimum Total Ratio of 90%. The internal target range of the LICAT ratio for Lifeco's major Canadian operating subsidiaries is 110% to 120% (on a consolidated basis).

Great-West Life's consolidated LICAT ratio at June 30, 2018 was 133% (130% at March 31, 2018). The LICAT ratio does not take into account any impact from \$0.9 billion of liquidity at the Lifeco holding company level at June 30, 2018 (\$0.5 billion at December 31, 2017).

The following provides a summary of the LICAT information and ratios for Great-West Life:

LICAT Ratio	June 30 2018	March 31 2018
Tier 1 Capital	\$ 12,398	\$ 12,536
Tier 2 Capital	3,262	3,212
Total Available Capital	15,660	15,748
Surplus Allowance & Eligible Deposits	10,130	10,342
Total Capital Resources	\$ 25,790	\$ 26,090
Base Solvency Buffer (includes OSFI scalar 1.05)	\$ 19,429	\$ 20,034
Total Ratio (OSFI Supervisory Target = 100%)⁽¹⁾	133%	130%

⁽¹⁾ Total Ratio (%) = Total Capital Resources / Base Solvency Buffer (after 1.05 scalar)

OSFI Regulatory Capital Initiatives

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*, effective for annual periods beginning after January 1, 2021. IFRS 17 includes new requirements for the recognition and measurement of insurance contracts a company issues and reinsurance contracts it holds. The new standard is expected to have a significant impact for insurers related to the timing of earnings recognition and on the presentation and disclosure of results. Adoption of the standard is expected to lead to further review and possible amendments to the OSFI LICAT Guideline. Additional details on the IFRS 17 standard are included in the "International Financial Reporting Standards" section in the Company's December 31, 2017 annual MD&A.

The Company will continue to work with OSFI, the Canadian Institute of Actuaries, and other industry participants, as the LICAT guideline further evolves to allow for any future development including adaptations relating to the IFRS 17 accounting standard and developments relating to Segregated Fund Guarantee Risk requirements.

CAPITAL ALLOCATION METHODOLOGY

The Company has a capital allocation methodology, which allocates financing costs in proportion to allocated capital. For the Canadian and European segments (essentially Great-West Life), this allocation method generally tracks the regulatory capital requirements, while for U.S. Financial Services and U.S. Asset Management (Putnam), it tracks the financial statement carrying value of the business units. Total leverage capital is consistently allocated across all business units in proportion to total capital resulting in a debt-to-equity ratio in each business unit mirroring the consolidated Company.

The capital allocation methodology allows the Company to calculate comparable return on equity (ROE) for each business unit. These ROEs are therefore based on the capital the business unit has been allocated and the financing charges associated with that capital.

Return on Equity - Net earnings basis⁽¹⁾	June 30 2018	March 31 2018	Dec. 31 2017
Canada	20.9 %	17.8 %	17.5 %
U.S. Financial Services	18.2 %	16.9 %	17.4 %
U.S. Asset Management (Putnam)	(28.7)%	(27.2)%	(24.2)%
Europe	15.0 %	15.5 %	15.4 %
Lifeco Corporate	(4.0)%	(5.7)%	(4.3)%
Total Lifeco Net Earnings Basis	12.5 %	11.4 %	10.9 %

Return on Equity - Adjusted net earnings basis⁽¹⁾	June 30 2018	March 31 2018	Dec. 31 2017
Canada⁽²⁾	21.2 %	20.0 %	19.9 %
U.S. Financial Services⁽³⁾	12.4 %	10.9 %	11.4 %
U.S. Asset Management (Putnam)⁽⁴⁾	(0.7)%	(1.0)%	(0.9)%
Europe⁽⁵⁾	14.5 %	14.9 %	15.0 %
Lifeco Corporate	(4.0)%	(5.7)%	(4.3)%
Total Lifeco Adjusted Net Earnings Basis⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	14.2 %	13.8 %	13.4 %

- (1) ROE is the calculation of net earnings divided by the average common shareholders' equity over the trailing four quarters.
- (2) Canada adjusted net earnings exclude \$19 million related to the impact of U.S. tax reform in the fourth quarter of 2017. The second quarter of 2017 exclude restructuring costs of \$126 million.
- (3) U.S. Financial Services adjusted net earnings exclude the positive impact of U.S. tax reform of \$197 million in the fourth quarter of 2017. The first quarter of 2017 exclude restructuring costs of \$11 million.
- (4) U.S. Asset Management (Putnam) adjusted net earnings exclude the impact of a net charge on the sale of an equity investment of \$122 million and the impact of U.S. tax reform of \$448 million in the fourth quarter of 2017.
- (5) Europe adjusted net earnings for the fourth quarter of 2017 exclude the positive impact of U.S. tax reform of \$54 million and restructuring costs of \$4 million related to the Insurance and Annuities business unit (\$1 million in the third quarter of 2017, \$1 million in the second quarter of 2017 and \$17 million in the first quarter of 2017).

The Company reported ROE based on net earnings of 12.5% at June 30, 2018, up from 11.4% at March 31, 2018. The Company reported ROE based on adjusted net earnings of 14.2% at June 30, 2018, up from 13.8% at March 31, 2018. Adjusted net earnings exclude the impact of U.S. tax reform, the net charge on the sale of an equity investment and restructuring costs in prior periods. Lifeco's net earnings for the second quarter of 2018 included a net positive impact of \$60 million after-tax, arising from the restructuring of U.S. financing completed in the quarter as a consequence of U.S. tax reform and the refinancing of certain debt instruments, which increased the June 30, 2018 ROE by 0.3%. Lifeco's net earnings for the third quarter of 2017 included a loss estimate of \$175 million after-tax relating to estimated claims resulting from the impact of recent Atlantic hurricane activity which reduced the June 30, 2018 ROE by 0.8% (0.9% reduction for March 31, 2018 and December 31, 2017).

RATINGS

Lifeco maintains ratings from five independent ratings companies. In the second quarter of 2018, the credit ratings for Lifeco and its major operating subsidiaries were unchanged (set out in table below). The Company continued to receive strong ratings relative to its North American peer group resulting from its conservative risk profile, stable net earnings and consistent dividend track record.

Lifeco's operating companies are assigned a group rating from each rating agency. This group rating is predominantly supported by the Company's leading position in the Canadian insurance market and competitive positions in the U.S. and European markets. Great-West Life, London Life and Canada Life have common management, governance and strategy, as well as an integrated business platform. Each operating company benefits from the strong implicit financial support and collective ownership by Lifeco. There were no changes to the Company's group credit ratings in the second quarter of 2018.

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

SEGMENTED OPERATING RESULTS

The consolidated operating results of Lifeco, including the comparative figures, are presented on an IFRS basis after capital allocation. Consolidated operating results for Lifeco comprise the net earnings of Great-West Life and its operating subsidiaries, London Life and Canada Life; Great-West Financial and Putnam; together with Lifeco's Corporate results.

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

CANADA

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

Selected consolidated financial information - Canada

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Premiums and deposits ⁽¹⁾	\$ 6,338	\$ 7,053	\$ 6,570	\$ 13,391	\$ 13,518
Sales	3,040	3,822	3,233	6,862	6,896
Fee and other income ⁽¹⁾	433	438	417	871	822
Net earnings	334	316	185	650	440
Adjusted net earnings ⁽²⁾	334	316	311	650	566
Total assets⁽³⁾	\$ 164,456	\$ 162,066	\$ 157,172		
Proprietary mutual funds and institutional net assets	7,155	6,837	6,344		
Total assets under management	171,611	168,903	163,516		
Other assets under administration	13,632	12,978	16,196		
Total assets under administration	\$ 185,243	\$ 181,881	\$ 179,712		

⁽¹⁾ Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers*, as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018.

⁽²⁾ Adjusted net earnings attributable to common shareholders is a non-IFRS measure of earnings performance. Adjustments for 2017 are detailed in footnote 7 to the Selected Consolidated Financial Information table of this MD&A.

⁽³⁾ Comparative figures have been reclassified as described in note 2 and note 34 to the Company's December 31, 2017 annual consolidated financial statements.

2018 DEVELOPMENTS

- As of June 30, 2018, \$170 million of pre-tax annualized expense reductions have been achieved relating to the Canadian business transformation compared to \$137 million as of March 31, 2018. The \$170 million of pre-tax annualized expense reductions are approximately \$131 million related to the common shareholders' account and \$39 million related to the participating accounts. The Company remains on track to achieve targeted annual expense reductions of \$200 million pre-tax by the first quarter of 2019, approximately \$160 million relating to the common shareholders' account and \$40 million relating to the participating accounts.

BUSINESS UNITS - CANADA

INDIVIDUAL CUSTOMER

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Premiums and deposits	\$ 2,564	\$ 2,616	\$ 2,640	\$ 5,180	\$ 5,572
Sales	2,253	2,525	2,293	4,778	5,153
Fee and other income	252	250	233	502	458
Net earnings	211	138	140	349	286

Premiums and deposits

Premiums and deposits for the second quarter of 2018 decreased by \$0.1 billion to \$2.6 billion compared to the same quarter last year, primarily due to a decrease in individual wealth segregated fund deposits of \$0.1 billion, partially offset by higher proprietary mutual fund deposits.

For the six months ended June 30, 2018, premiums and deposits decreased by \$0.4 billion to \$5.2 billion compared to the same period last year, primarily due to a decrease in individual wealth segregated fund deposits of \$0.3 billion and a decrease in participating life insurance premiums of \$0.1 billion.

Premiums and deposits for the second quarter of 2018 decreased by \$0.1 billion compared to the previous quarter, primarily due to a decrease in individual wealth segregated fund deposits, partially offset by an increase in participating life insurance premiums.

Sales

Sales for the second quarter of 2018 of \$2.3 billion were \$40 million lower than the same quarter last year due to decreases in individual insurance and individual wealth segregated fund sales, partially offset by an increase in mutual fund sales.

For the six months ended June 30, 2018, sales decreased by \$0.4 billion to \$4.8 billion compared to the same period last year, due to a decrease in individual insurance sales of \$0.2 billion and a decrease in individual wealth sales of \$0.2 billion. The decrease in individual insurance sales was primarily due to higher insurance sales in the first quarter of 2017 driven by the transition rules associated with the new tax exempt legislation effective January 2017. The decrease in individual wealth sales was primarily due to a decrease in segregated fund sales, partially offset by higher third party mutual fund sales.

Sales for the second quarter of 2018 decreased by \$0.3 billion compared to the previous quarter, primarily due to a decrease in individual wealth segregated fund sales and third party mutual fund sales, partially offset by an increase in individual insurance sales.

For the individual wealth investment fund business, net cash outflows for the second quarter of 2018 were \$177 million compared to net cash inflows of \$116 million for the same quarter last year and net cash outflows of \$137 million for the previous quarter. Net cash outflows for the six months ended June 30, 2018 were \$314 million compared to net cash inflows of \$241 million for the same period last year.

Fee and other income

Fee and other income for the second quarter of 2018 increased by \$19 million to \$252 million compared to the same quarter last year, primarily due to growth in other income related to Financial Horizons Group, which was acquired in the third quarter of 2017, and growth in fee income driven by higher average assets under administration.

For the six months ended June 30, 2018, fee and other income increased by \$44 million to \$502 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for the second quarter of 2018 was comparable to the previous quarter.

Net earnings

Net earnings for the second quarter of 2018 increased by \$71 million to \$211 million compared to the same quarter last year. The increase was primarily due to higher contributions from insurance contract liability basis changes, more favourable policyholder behaviour experience as well as more favourable impacts of changes to certain income tax estimates. The increase was partially offset by lower contributions from investment experience and less favourable mortality experience. Second quarter of 2018 insurance contract liability basis changes were primarily driven by the impact of updated after-tax return assumptions for certain assets, partially offset by updated policyholder behaviour assumptions.

For the six months ended June 30, 2018, net earnings increased by \$63 million to \$349 million compared to the same period last year. The increase was primarily due to higher contributions from insurance contract liability basis changes, more favourable policyholder behaviour and more favourable impacts of changes to certain income tax estimates. The increase was partially offset by the less favourable impact of new business driven by lower insurance sales, lower contributions from investment experience and less favourable mortality experience.

Net earnings for the second quarter of 2018 increased by \$73 million compared to the previous quarter. The increase was primarily due to higher contributions from insurance contract liability basis changes and more favourable impacts of changes to certain income tax estimates, partially offset by lower contributions from investment experience.

For the second quarter of 2018, net earnings attributable to the participating account were \$17 million compared to net loss of \$31 million for the same quarter last year. Included in results for second quarter of 2017 were restructuring costs of \$32 million. Excluding these costs, net earnings increased by \$16 million primarily due to more favourable impact of new business and favourable impacts of changes to certain income tax estimates.

For the six months ended June 30, 2018, net earnings attributable to the participating account were \$17 million compared to net loss of \$2 million for the same period last year. Excluding the impact of restructuring costs of \$32 million recorded in the second quarter of 2017, net earnings decreased by \$13 million, primarily due to the less favourable impact of new business driven by lower insurance sales.

Compared to the previous quarter, net earnings attributable to the participating account increased by \$17 million, primarily due to more favourable impacts of changes to certain income tax estimates.

GROUP CUSTOMER

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Premiums and deposits ⁽¹⁾	\$ 3,774	\$ 4,437	\$ 3,930	\$ 8,211	\$ 7,946
Sales	787	1,297	940	2,084	1,743
Fee and other income ⁽¹⁾	170	170	165	340	325
Net earnings	194	142	189	336	293

⁽¹⁾ Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers*, as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018.

Premiums and deposits

Premiums and deposits for the second quarter of 2018 decreased by \$0.2 billion to \$3.8 billion compared to the same quarter last year. The decrease was primarily due to a decrease in group wealth premiums and deposits of \$0.3 billion, of which all wealth markets contributed, partially offset by an increase in group insurance premiums and deposits of \$0.1 billion.

For the six months ended June 30, 2018, premiums and deposits increased by \$0.3 billion to \$8.2 billion compared to the same period last year, due to an increase in group wealth premiums and deposits of \$0.2 billion and an increase in group insurance premiums and deposits of \$0.1 billion. The increase in group wealth was due to higher segregated fund deposits, while the increase in group insurance was primarily due to higher administrative services only (ASO) premiums and deposits.

Premiums and deposits for the second quarter of 2018 decreased by \$0.7 billion compared to the previous quarter, primarily due to lower group wealth segregated fund deposits.

Sales

Sales for the second quarter of 2018 decreased by \$0.2 billion to \$0.8 billion compared to the same period last year, reflecting a decrease in group wealth sales partially offset by an increase in group insurance sales. The decrease in group wealth sales was due to both risk based sales and segregated fund sales partially offset by an increase in group creditor and large case group insurance sales.

For the six months ended June 30, 2018, sales increased by \$0.3 billion to \$2.1 billion compared to the same period last year, primarily due to an increase in large case group insurance and group creditor sales.

Sales for the second quarter of 2018 decreased by \$0.5 billion compared to the previous quarter, primarily due to a decrease in group wealth sales of \$0.4 billion from segregated fund sales and a decrease in large case group insurance sales of \$0.1 billion, partially offset by an increase in group creditor insurance sales.

For the group wealth segregated fund business, net cash outflows for the second quarter of 2018 were \$9 million, compared to net cash inflows of \$212 million for the same quarter last year and net cash inflows of \$101 million for the previous quarter. For the six months ended June 30, 2018, net cash inflows were \$92 million, compared to net cash inflows of \$494 million for the same period last year.

Fee and other income

Fee and other income for the second quarter of 2018 increased by \$5 million to \$170 million compared to the same quarter last year, primarily due to an increase in group insurance fees in the large case market and group wealth fees in the large case proprietary market.

Fee and other income for the six months ended June 30, 2018 increased by \$15 million to \$340 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for the second quarter of 2018 of \$170 million was comparable to the previous quarter.

Net earnings

Net earnings for the second quarter of 2018 increased by \$5 million to \$194 million compared to the same quarter last year, primarily due to more favourable morbidity experience and higher contributions from investment experience, partially offset by higher expenses.

For the six months ended June 30, 2018, net earnings increased by \$43 million to \$336 million compared to the same period last year, primarily due to more favourable morbidity and mortality experience as well as higher contributions from insurance contract liability basis changes, partially offset by lower contributions from investment experience. Second quarter of 2018 insurance contract liability basis changes were primarily driven by the impact of updated after-tax return assumptions for certain assets.

Net earnings for the second quarter of 2018 increased by \$52 million compared to the previous quarter. The increase was primarily due to more favourable morbidity experience, higher contributions from insurance contract liability basis changes and more favourable impacts of changes to certain income tax estimates.

CANADA CORPORATE

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

In the second quarter of 2018, the net loss was \$71 million compared to a net loss of \$144 million for the same period last year. Included in results for second quarter of 2017 were restructuring costs of \$126 million. Excluding these costs, the net loss increased by \$53 million, primarily due to the less favourable impact of changes to certain income tax estimates and higher expenses. Canada Corporate includes expenses related to an unexpected technology disruption, which occurred during the second quarter of 2018 that affected a number of internal, as well as customer- and advisor-facing systems and applications, all of which have since been restored. The disruption occurred as part of routine maintenance and at no time was there any unauthorized access to any customer or business data.

The net loss for the six months ended June 30, 2018 was \$35 million compared to a net loss of \$139 million for the same period last year. Excluding the impact of 2017 restructuring costs discussed for the in-quarter results, the net loss increased by \$22 million primarily due to the less favourable impact of changes to certain income tax estimates.

In the second quarter of 2018, the net loss was \$71 million compared to net earnings of \$36 million in the previous quarter. The change was primarily due to the less favourable impact of changes to certain income tax estimates and lower net investment income, primarily resulting from lower fair value adjustments on investment properties held in Canada Corporate.

UNITED STATES

The United States operating results for Lifeco include the results of Great-West Financial, Putnam and the results of the insurance businesses in the United States branches of Great-West Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results.

Through its Financial Services business unit, and specifically the Empower Retirement brand, the Company provides an array of financial security products, including employer-sponsored defined contribution plans, administrative and recordkeeping services, individual retirement accounts, fund management as well as investment and advisory services. The Company also provides life insurance, annuity and executive benefits products through its Individual Markets operations.

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

TRANSLATION OF FOREIGN CURRENCY

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

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

Selected consolidated financial information - United States

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Premiums and deposits	\$ 18,184	\$ 16,345	\$ 13,197	\$ 34,529	\$ 30,755
Sales	24,508	25,076	16,934	49,584	41,286
Fee and other income ⁽¹⁾	655	631	658	1,286	1,277
Net earnings - common shareholders	145	75	82	220	138
Net earnings (US\$) - common shareholders ⁽²⁾	105	59	62	164	104
Adjusted net earnings - common shareholders ⁽³⁾	145	75	82	220	149
Adjusted net earnings - common shareholders (US\$) ⁽²⁾⁽³⁾	105	59	62	164	112
<hr/>					
Total assets ⁽⁴⁾	\$ 85,203	\$ 85,070	\$ 86,321		
Proprietary mutual funds and institutional net assets	243,506	235,926	227,545		
Total assets under management	328,709	320,996	313,866		
Other assets under administration	642,276	617,388	572,289		
Total assets under administration	\$ 970,985	\$ 938,384	\$ 886,155		

⁽¹⁾ Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers*, as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018.

⁽²⁾ Net earnings (US\$) - common shareholders and Adjusted net earnings - common shareholders (US\$) do not include \$9 million of net foreign currency exchange gains in the second quarter of 2018 as they do not have a US\$ equivalent. These amounts are only included in Canadian dollar net earnings.

⁽³⁾ Adjusted net earnings attributable to common shareholders is a non-IFRS measure of earnings performance and reflects adjustments of restructuring costs of \$11 million (US\$8 million) relating to the Financial Services business unit in the first quarter of 2017.

⁽⁴⁾ Comparative figures have been reclassified as described in note 2 and note 34 to the Company's December 31, 2017 annual consolidated financial statements.

2018 DEVELOPMENTS

- On April 6, 2016, the U.S. Department of Labor ("DOL") issued a rule redefining and expanding who is a fiduciary by reason of providing investment advice to a retirement plan or holder of an individual retirement account. The DOL issued an 18-month delay for full compliance with the rule to July 1, 2019. However, on March 15, 2018, the United States Court of Appeals for the Fifth Circuit released an opinion vacating the rule in its entirety and later in June of 2018 issued a mandate making the Court's decision effective.
- On April 18, 2018, the Securities and Exchange Commission released its proposal on the best interest standards applicable to brokers and advisors. Comments on the proposal are due on August 7, 2018. The Company intends to provide comments to the SEC. The Company will monitor any developments or proposed revisions and is preparing to comply with the standards.
- The *Tax Reconciliation Act*, which was signed in December 2017, among other changes, lowered the U.S. corporate federal income tax rate from 35% to 21% effective on January 1, 2018. As a result, net earnings in 2018 reflect net income, tax effected at the lower 21% rate. Other provisions of the tax bill did not have a material effect on year-to-date taxable income in 2018.
- During the second quarter of 2018, the Company issued two tranches of debentures totaling US\$800 million and redeemed two tranches of debentures totaling US\$699 million. As a result of the financing activity, Canadian dollar net earnings of the Company include foreign exchange net gains of \$9 million after-tax. The Company also recognized a gain of \$51 million (US\$39 million) after-tax on an interest rate hedge related to one of the tranches of debt that was redeemed. These items have been included in the U.S. Corporate results. Additional details on the debt redemptions and issuances are included in the "Debentures and Other Debt Instruments" section.

BUSINESS UNITS – UNITED STATES

FINANCIAL SERVICES

2018 DEVELOPMENTS

- Empower Retirement participant accounts have grown to 8.5 million at June 30, 2018 from 8.3 million at December 31, 2017.
- Empower Retirement assets under administration grew to US\$545 billion at June 30, 2018, up from US\$530 billion at December 31, 2017.

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Premiums and deposits	\$ 3,182	\$ 3,110	\$ 3,078	\$ 6,292	\$ 6,676
Sales ⁽¹⁾	9,506	11,841	6,815	21,347	17,207
Fee and other income ⁽²⁾	360	341	350	701	681
Net earnings	101	91	88	192	173
Premiums and deposits (US\$)	\$ 2,467	\$ 2,468	\$ 2,297	\$ 4,935	\$ 5,023
Sales (US\$) ⁽¹⁾	7,369	9,398	5,086	16,767	12,959
Fee and other income (US\$) ⁽²⁾	280	270	261	550	512
Net earnings (US\$)	78	72	66	150	130

⁽¹⁾ For the three and six months ended June 30, 2018, sales included US\$0.2 billion and US\$0.5 billion, respectively, relating to Putnam managed funds sold on the Empower Retirement platform (US\$0.4 billion and US\$0.9 billion for the three and six months ended June 30, 2017).

⁽²⁾ Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers*, as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018.

Premiums and deposits

Premiums and deposits for the second quarter of 2018 of US\$2.5 billion increased by US\$0.2 billion compared to the same quarter last year, primarily due to higher sales in the annuity line of business for Individual Markets and higher deposits from existing Empower Retirement participants.

For the six months ended June 30, 2018, premiums and deposits decreased by US\$0.1 billion to US\$4.9 billion compared to the same period last year. Lower sales in the executive benefits and retail bank insurance lines of business for Individual Markets were mostly offset by higher sales in the annuity line of business for Individual Markets and higher deposits from existing Empower Retirement participants.

Premiums and deposits for the second quarter of 2018 of US\$2.5 billion were comparable to the previous quarter.

Sales

Sales in the second quarter of 2018 increased by US\$2.3 billion to US\$7.4 billion compared to the same quarter last year, primarily due to an increase in Empower Retirement sales driven by higher large plan sales. Large plan sales can be highly variable from period to period and tend to be lower margin.

For the six months ended June 30, 2018, sales increased by US\$3.8 billion to US\$16.8 billion compared to the same period last year, primarily due to an increase in Empower Retirement sales driven by higher small and mid-sized plan sales.

Sales in the second quarter of 2018 decreased by US\$2.0 billion compared to the previous quarter, primarily due to a decrease in Empower Retirement sales driven by lower small and mid-sized plan sales, partially offset by higher large plan sales.

Fee and other income

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

Fee and other income for the second quarter of 2018 increased by US\$19 million to US\$280 million compared to the same quarter last year, primarily due to growth in participants and assets.

For the six months ended June 30, 2018, fee and other income increased by US\$38 million to US\$550 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for the second quarter of 2018 increased by US\$10 million compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

Net earnings

Net earnings for the second quarter of 2018 increased by US\$12 million to US\$78 million compared to the same quarter last year. The increase was primarily due to the impact of the U.S. corporate tax rate changes, which resulted in increased earnings of US\$15 million, and net growth in business, partially offset by lower contributions from investment experience and lower release of interest margins on insurance contract liabilities.

For the six months ended June 30, 2018, net earnings increased by US\$20 million to US\$150 million compared to the same period last year. The increase was primarily due to the impact of the U.S. corporate tax rate changes, which resulted in increased earnings of US\$27 million, and net growth in business, partially offset by a lower cumulative release of interest margins on insurance contract liabilities.

Net earnings for the second quarter of 2018 increased by US\$6 million compared to the previous quarter, primarily due to net growth in the business, partially offset by lower contributions from investment experience.

ASSET MANAGEMENT

2018 DEVELOPMENTS

- Putnam's ending assets under management (AUM) at June 30, 2018 of US\$172.4 billion increased by US\$9.5 billion compared to the same period last year, while average AUM for the six months ended June 30, 2018 of US\$173.2 billion increased by US\$13.5 billion compared to the same period last year. Putnam's ending AUM increased by US\$1.0 billion compared to December 31, 2017.
- Putnam continues to sustain strong investment performance relative to its peers. As of June 30, 2018, approximately 87% and 79% of Putnam's fund assets performed at levels above the Lipper median on a one-year and five-year basis, respectively. Additionally, approximately 59% and 65% of Putnam's fund assets performed at levels above the Lipper top quartile, on a one-year and five-year basis, respectively.
- Putnam's net asset inflows for the three months ended June 30, 2018 were US\$1.6 billion, which were the highest since the second quarter of 2011. Included in the net asset inflows for the three months ended June 30, 2018 of US\$1.6 billion were mutual fund net inflows of US\$0.6 billion, which were the highest since the fourth quarter of 2014.

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Sales	\$ 15,002	\$ 13,235	\$ 10,119	\$ 28,237	\$ 24,079
Fee income					
Investment management fees ⁽¹⁾	207	203	208	410	406
Performance fees	(10)	(11)	(5)	(21)	(18)
Service fees	37	36	39	73	77
Underwriting & distribution fees ⁽¹⁾	61	62	66	123	131
Fee income ⁽¹⁾	295	290	308	585	596
Core net earnings (loss) ⁽²⁾	6	(3)	9	3	7
Less: Financing and other expenses (after-tax) ⁽²⁾	(14)	(13)	(15)	(27)	(29)
Reported net earnings (loss)	(8)	(16)	(6)	(24)	(22)
Sales (US\$)	\$ 11,630	\$ 10,504	\$ 7,552	\$ 22,134	\$ 18,128
Fee income (US\$)					
Investment management fees (US\$) ⁽¹⁾	160	161	155	321	305
Performance fees (US\$)	(8)	(9)	(4)	(17)	(14)
Service fees (US\$)	29	29	29	58	58
Underwriting & distribution fees (US\$) ⁽¹⁾	47	49	50	96	100
Fee income (US\$) ⁽¹⁾	228	230	230	458	449
Core net earnings (loss) (US\$) ⁽²⁾	5	(2)	7	3	6
Less: Financing and other expenses (after-tax) (US\$) ⁽²⁾	(11)	(11)	(11)	(22)	(22)
Reported net earnings (loss) (US\$)	(6)	(13)	(4)	(19)	(16)
Pre-tax operating margin ⁽¹⁾⁽³⁾	2.2%	(0.6)%	5.9%	0.8%	2.6%
Average assets under management (US\$)	\$ 172,824	\$ 173,554	\$ 161,816	\$ 173,180	\$ 159,642

⁽¹⁾ Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers*, as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018.

⁽²⁾ Core net earnings (loss) (a non-IFRS financial measure) is a measure of the Asset Management business unit's performance. Core net earnings (loss) includes the impact of dealer commissions and software amortization, and excludes the impact of certain corporate financing charges and allocations, certain tax adjustments and other non-recurring transactions.

⁽³⁾ Pre-tax operating margin (a non-IFRS financial measure) is a measure of the Asset Management business unit's pre-tax core net earnings (loss) divided by the sum of fee income and net investment income.

Sales

Sales in the second quarter of 2018 increased by US\$4.1 billion to US\$11.6 billion compared to the same quarter last year, primarily due to a US\$2.5 billion increase in institutional sales and a US\$1.6 billion increase in mutual fund sales.

For the six months ended June 30, 2018, sales increased by US\$4.0 billion to US\$22.1 billion compared to the same period last year, primarily due to an increase in mutual fund sales of US\$3.3 billion and an increase in institutional sales of US\$0.7 billion.

Sales in the second quarter of 2018 increased by US\$1.1 billion compared to the previous quarter, primarily due to a US\$1.6 billion increase in institutional sales.

Fee income

Fee income is derived primarily from investment management fees, performance fees, transfer agency and other service fees, as well as underwriting and distribution fees. Generally, fees are earned based on AUM and may depend on financial markets, the relative performance of Putnam's investment products, the number of retail accounts and sales. Performance fees are generated on certain mutual funds and institutional portfolios and are generally based on a rolling 36 month performance period for mutual funds and a 12 month performance period for institutional portfolios. Performance fees on mutual funds are symmetric, and as a result, can be positive or negative.

Fee income for the second quarter of 2018 decreased by US\$2 million to US\$228 million compared to the same quarter last year. The decrease was primarily due to lower institutional performance fees earned and lower underwriting and distribution fees earned on the sale of certain mutual fund share classes. This decrease was mostly offset by higher investment management fees driven by higher average AUM.

For the six months ended June 30, 2018, fee income increased by US\$9 million to US\$458 million compared to the same period last year. The increase was primarily due to higher investment management fees driven by higher average AUM, partially offset by lower institutional performance fees earned as well as lower underwriting and distribution fees earned on the sale of certain mutual fund share classes.

Fee income for the second quarter of 2018 decreased by US\$2 million compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

Net earnings

Core net earnings (a non-IFRS financial measure) for the second quarter of 2018 were US\$5 million compared to core net earnings of US\$7 million for the same quarter last year. The decrease in core net earnings was primarily due to higher variable incentive compensation as well as lower net investment income and lower fee income. These items were mostly offset by lower income taxes, driven by the impact of a reduction in the U.S. corporate tax rate. In the second quarter of 2018, the reported net loss, including financing and other expenses, was US\$6 million compared to a reported net loss of US\$4 million for the same quarter last year. Financing and other expenses for the second quarter of 2018 of US\$11 million were comparable to the same quarter last year, as lower financing costs were offset by the impact of the reduction in the U.S. corporate tax rate.

For the six months ended June 30, 2018, core net earnings were US\$3 million compared to core net earnings of US\$6 million for the same period last year. The decrease in the core net earnings was primarily due to lower net investment income and higher variable incentive compensation. These items were mostly offset by higher fee income, as well as lower income taxes, as discussed for the in-quarter results. The reported net loss, including financing and other expenses, for the six months ended June 30, 2018 was US\$19 million compared to US\$16 million for the same period last year. Financing and other expenses for the six month period ended June 30, 2018 of US\$22 million were comparable to the same period last year, primarily due to the same reasons as discussed for the in-quarter results.

The core net earnings for the second quarter of 2018 were US\$5 million compared to core net loss of US\$2 million for the previous quarter. The increase in the core net earnings was primarily due to lower variable incentive compensation as well as a US\$3 million one-time expense associated with lowering future technology expenses in the first quarter of 2018. These items were partially offset by lower net investment income and lower fee income. The reported net loss, including financing and other expenses, for the second quarter of 2018, was US\$6 million compared to a reported net loss of US\$13 million in the previous quarter. Financing and other expenses for the second quarter of 2018 of US\$11 million were comparable to the previous quarter.

ASSETS UNDER MANAGEMENT

Assets under management (\$US)	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Beginning assets	\$ 169,468	\$ 171,458	\$ 159,945	\$ 171,458	\$ 152,122
Sales - Mutual funds	6,479	6,916	4,873	13,395	10,080
Redemptions - Mutual funds	(5,857)	(7,258)	(5,279)	(13,115)	(11,232)
Net asset flows - Mutual funds	622	(342)	(406)	280	(1,152)
Sales - Institutional	5,151	3,588	2,679	8,739	8,048
Redemptions - Institutional	(4,211)	(4,451)	(3,166)	(8,662)	(6,476)
Net asset flows - Institutional	940	(863)	(487)	77	1,572
Net asset flows - Total	1,562	(1,205)	(893)	357	420
Impact of market/performance	1,415	(785)	3,861	630	10,371
Ending assets	\$ 172,445	\$ 169,468	\$ 162,913	\$ 172,445	\$ 162,913
<u>Average assets under management</u>					
Mutual funds	78,854	79,415	74,807	79,128	74,249
Institutional assets	93,970	94,139	87,009	94,052	85,393
Total average assets under management	\$ 172,824	\$ 173,554	\$ 161,816	\$ 173,180	\$ 159,642

Average AUM for the three months ended June 30, 2018 were US\$172.8 billion, an increase of US\$11.0 billion or 6.8% compared to the same quarter last year, primarily due to the cumulative impact of positive markets over the twelve month period. Net asset inflows for the second quarter of 2018 were US\$1.6 billion compared to net asset outflows of US\$0.9 billion in the same quarter last year. In-quarter institutional net asset inflows were almost US\$1.0 billion and mutual fund net asset inflows were US\$0.6 billion.

Average AUM for the six months ended June 30, 2018 increased by US\$13.5 billion to US\$173.2 billion compared to the same period last year, primarily due to the same reason discussed for the in-quarter results. Net asset inflows for the six months ended June 30, 2018 of US\$0.4 billion were comparable to the same period last year. Year-to-date mutual fund net asset inflows were US\$0.3 billion and institutional net asset inflows were US\$0.1 billion.

Average AUM for the three months ended June 30, 2018 decreased by US\$0.7 billion compared to the previous quarter, primarily due to the impact of markets driven by the timing of market movements during the quarters, partially offset by net asset inflows.

UNITED STATES CORPORATE

United States Corporate consists of items not associated directly with or allocated to the United States business units, including the impact of certain non-continuing items related to the U.S. segment.

In the second quarter of 2018, net earnings were US\$33 million up from net earnings of nil for the same quarter last year. The increase was primarily due to a gain on terminating an interest rate hedge as part of a debt refinancing transaction partially offset by a provision for an ongoing legal matter.

For the six months ended June 30, 2018, net earnings increased by US\$43 million to US\$33 million compared to the same period in 2017, primarily due to the same reasons discussed for the in-quarter results. Results for the first six months of 2017 included restructuring costs of US\$8 million relating to Empower Retirement and the acquisition of the J.P. Morgan Retirement Plan Services (RPS) business as well as business strategy restructuring.

In the second quarter of 2018, net earnings were US\$33 million compared to net earnings of nil in the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

The 2018 U.S. Corporate U.S. dollar net earnings do not include \$9 million of net foreign currency exchange gains which occurred in the second quarter of 2018 as a result of debt redemptions as they do not have a U.S. dollar equivalent. These amounts are only included in Canadian dollar net earnings.

EUROPE

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

TRANSLATION OF FOREIGN CURRENCY

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

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

Selected consolidated financial information - Europe

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Premiums and deposits	\$ 9,449	\$ 9,728	\$ 8,643	\$ 19,177	\$ 17,675
Fee and other income	395	364	346	759	670
Net earnings - common shareholders	355	344	321	699	610
Adjusted net earnings - common shareholders ⁽¹⁾	355	344	322	699	628
<hr/>					
Total assets ⁽²⁾	\$ 181,036	\$ 185,515	\$ 166,018		
Proprietary mutual funds and institutional net assets	44,229	43,080	37,797		
Total assets under management	225,265	228,595	203,815		
Other assets under administration	41,772	43,231	39,148		
Total assets under administration⁽³⁾	\$ 267,037	\$ 271,826	\$ 242,963		

⁽¹⁾ Adjusted net earnings attributable to common shareholders is a non-IFRS measure of earnings performance. Adjustments for 2017 are detailed in footnote 7 to the Selected Consolidated Financial Information table of this MD&A.

⁽²⁾ Comparative figures have been reclassified as described in note 2 and note 34 to the Company's December 31, 2017 annual consolidated financial statements.

⁽³⁾ At June 30, 2018, total assets under administration excludes \$8.5 billion of assets managed for other business units within the Lifeco group of companies (\$8.3 billion at March 31, 2018 and \$8.1 billion at June 30, 2017).

2018 DEVELOPMENTS

- On June 21, 2018, Canada Life Limited, a U.K. subsidiary of the Company, announced an agreement to sell a block of 155,000 heritage policies with assets and liabilities of £2.7 billion to Scottish Friendly and agreed to an arrangement under which Canada Life Investments will continue to manage a substantial portion of the transferring unit-linked assets. The transfer of these policies to Scottish Friendly is subject to regulatory approval and the satisfactory completion of certain closing conditions and is expected to occur in the second half of 2019. This sale, together with the integration of the Retirement Advantage business, will act as an enabler to help move forward in transforming the U.K. business to increase focus on the retirement market to serve the evolving needs of customers and support future growth.
- On April 20, 2018, Irish Life Group Limited, a subsidiary of the Company, entered into an agreement to acquire a controlling interest in Invesco Ltd (Ireland), an independent financial consultancy firm. Invesco manages 275 occupational pension plans on behalf of large corporations in Ireland, along with pension plans for over 500 small and medium companies. In total, Invesco has almost 55,000 members in corporate pension schemes and €4.8 billion in assets under administration, €2.3 billion of which is already managed through Irish Life Investment Managers (as of August 31, 2017). The Company continues to make progress on the acquisition of Invesco Ltd (Ireland). The acquisition is subject to regulatory approval and customary closing conditions, and is expected to be completed in the third quarter of 2018. The transaction is expected to be earnings accretive, although it is not expected to have a material impact on the Company's financial results.
- Some market volatility continues following the U.K.'s formal notification in March 2017 of its intention to leave the European Union (EU). As exit negotiations continue, the Company will continue to work closely with customers, business partners and regulators as the U.K. and the EU negotiate and agree on their new relationship. The Company's other European businesses may also see some impacts arising from the market uncertainty in Europe continuing from Brexit, but the impacts are not currently expected to be significant.
- During the second quarter of 2018, at the European Pensions Awards 2018, Irish Life Investment Managers received the "Passive Manager of Year" award.
- During the second quarter of 2018, U.K. Group Insurance Division was rated the market leader in U.K. Group Risk according to the Swiss Re Group Watch 2018 Survey with more employer schemes and employees covered than any other insurers (based on 2017 data). U.K. Group Insurance Division also reached £500 million of in-force premiums in the second quarter of 2018.
- During the second quarter of 2018, ASSEKURATA Assekuranz Rating-Agentur GmbH (Assekurata), a German rating agency, reconfirmed Canada Life Assurance Europe plc, a subsidiary of the Company, AA- Credit Rating, which is the highest rating Assekurata has awarded any life insurance company in Germany.

BUSINESS UNITS – EUROPE

INSURANCE & ANNUITIES

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Premiums and deposits ⁽¹⁾	\$ 6,240	\$ 6,412	\$ 5,623	\$ 12,652	\$ 10,778
Sales ⁽¹⁾	5,535	5,739	4,835	11,274	9,251
Fee and other income	392	360	342	752	661
Net earnings	281	244	239	525	464

⁽¹⁾ For the three and six months ended June 30, 2018, premiums and deposits and sales exclude \$0.2 billion and \$0.6 billion respectively of assets managed for other business units within the Lifeco group of companies (\$0.2 billion and \$0.5 billion for the three and six months ended June 30, 2017 and \$0.4 billion for the three months ended March 31, 2018).

Premiums and deposits

Premiums and deposits for the second quarter of 2018 increased by \$0.6 billion to \$6.2 billion compared to the same quarter last year, primarily due to higher fund management sales in Ireland, higher wealth management sales in the U.K. and the impact of currency movement. These items were partially offset by lower pension sales in Ireland.

For the six months ended June 30, 2018, premiums and deposits increased by \$1.9 billion to \$12.7 billion compared to the same period last year, primarily due to higher fund management sales in Ireland, higher wealth management sales in the U.K. and the impact of currency movement. These items were partially offset by lower bulk annuity sales in the U.K.

Premiums and deposits for the second quarter of 2018 decreased by \$0.2 billion compared to the previous quarter, primarily due to lower fund management and pension sales in Ireland, partially offset by higher wealth management and payout annuity sales as well as higher group premiums in the U.K.

Sales

Sales for the second quarter of 2018 increased by \$0.7 billion to \$5.5 billion compared to the same quarter last year, primarily due to higher fund management sales in Ireland, equity release mortgage sales related to Retirement Advantage, which was acquired in the first quarter of 2018, higher wealth management sales in the U.K. and the impact of currency movement. These items were partially offset by lower pension sales in Ireland.

For the six months ended June 30, 2018, sales increased by \$2.0 billion to \$11.3 billion compared to the same period last year, primarily due to higher fund management sales in Ireland, equity release mortgage sales related to Retirement Advantage, higher wealth management sales in the U.K. and impact of currency movement. These items were partially offset by lower bulk annuity sales in the U.K.

Sales for the second quarter of 2018 decreased by \$0.2 billion compared to the previous quarter, primarily due to lower fund management and pension sales in Ireland partially offset by higher payout annuity and wealth management sales in the U.K.

Fee and other income

Fee and other income for the second quarter of 2018 increased by \$50 million to \$392 million compared to the same quarter last year. The increase was primarily due to higher fees in Ireland and Germany and higher other income in Ireland, which can be highly variable from quarter to quarter.

For the six months ended June 30, 2018, fee and other income increased by \$91 million to \$752 million compared to the same period last year. The increase was primarily due to the same reasons discussed for the in-quarter results as well as the impact of currency movement.

Fee and other income for the second quarter of 2018 increased by \$32 million compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

Net earnings

Net earnings for the second quarter of 2018 increased by \$42 million to \$281 million compared to the same quarter last year, primarily due to higher contributions from insurance contract liability basis changes mainly reflecting updated annuitant mortality assumptions, more favourable impacts of changes to certain income tax estimates and currency movement, partially offset by lower contributions from investment experience.

Net earnings for the six months ended June 30, 2018 increased by \$61 million to \$525 million compared to the same period last year, primarily due to more favourable mortality and morbidity experience, higher contributions from insurance contract liability basis changes related to the impact of updated annuitant mortality assumptions as well as the impacts of changes to certain tax estimates and currency movement. These items were partially offset by the impact of lower new business volumes in payout annuities, lower contributions from investment experience and a gain on the sale of the Company's Allianz Ireland holdings in the first quarter of 2017.

Net earnings for the second quarter of 2018 increased by \$37 million compared to the previous quarter, primarily due to higher contributions from insurance contract liability basis changes partially offset by unfavourable mortality experience.

REINSURANCE

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017	June 30 2018	June 30 2017
Premiums and deposits	\$ 3,209	\$ 3,316	\$ 3,020	\$ 6,525	\$ 6,897
Fee and other income	3	4	4	7	9
Net earnings	97	104	83	201	164

Premiums and deposits

Reinsurance premiums can vary significantly from period to period depending on the terms of underlying treaties. For certain life reinsurance transactions, premiums will vary based on the form of the transaction. Treaties where insurance contract liabilities are assumed on a proportionate basis will typically have significantly higher premiums than treaties where claims are not incurred by the reinsurer until a threshold is exceeded. Earnings are not directly correlated to premiums received.

Premiums and deposits for the second quarter of 2018 increased from \$3.0 billion to \$3.2 billion compared to the same quarter last year, primarily due to new reinsurance agreements and higher volumes relating to existing business.

For the six months ended June 30, 2018, premiums and deposits decreased by \$0.4 billion to \$6.5 billion compared to the same period last year. The decrease was primarily due to the impact of currency movement.

Premiums and deposits for the second quarter of 2018 decreased by \$0.1 billion compared to the previous quarter, primarily due to lower volumes relating to existing business, partially offset by new reinsurance agreements.

Fee and other income

Fee and other income for the second quarter of 2018 of \$3 million was comparable to the same period last year and to the previous quarter.

For the six months ended June 30, 2018, fee and other income decreased by \$2 million to \$7 million compared to the same period last year, primarily due to restructured reinsurance agreements and the impact of currency movement.

Net earnings

Net earnings for the second quarter of 2018 increased by \$14 million to \$97 million compared to the same quarter last year. The increase was primarily due to higher impacts from new business gains, partially offset by lower contributions from insurance contract liability basis changes.

For the six months ended June 30, 2018, net earnings increased by \$37 million to \$201 million compared to the same period last year. The increase was primarily due to higher contributions from insurance contract liability basis changes, partially offset by lower impacts from new business gains.

Net earnings for the second quarter of 2018 decreased by \$7 million compared to the previous quarter, primarily due to lower contributions from insurance contract liability basis changes partially offset by higher impacts from new business gains.

EUROPE CORPORATE

The Europe Corporate account includes financing charges, the impact of certain non-continuing items as well as the results for the legacy international businesses.

In the second quarter of 2018, Europe Corporate had a net loss of \$23 million compared to a net loss of \$1 million for the same quarter last year, primarily due to higher corporate expenses and the less favourable impact of changes in certain income tax estimates. The second quarter of 2017 results included \$1 million of restructuring costs related to the Irish Life retail business.

For the six months ended June 30, 2018, Europe Corporate had a net loss of \$27 million compared to a net loss of \$18 million for the same period last year, primarily due to the same reasons discussed for the in-quarter results. Included in the 2017 year-to-date results were \$18 million of restructuring costs related to Irish Life Health and the Irish Life retail businesses.

For the three months ended June 30, 2018, Europe Corporate had a net loss of \$23 million compared to a net loss of \$4 million for the previous quarter, primarily due to the less favourable impact of changes in certain income tax estimates.

LIFECO CORPORATE OPERATING RESULTS

The Lifeco Corporate segment includes operating results for activities of Lifeco that are not associated with the major business units of the Company.

The net loss for the three months ended June 30, 2018 of \$3 million was comparable to the same period last year and to the previous quarter.

For the six months ended June 30, 2018, Lifeco Corporate had a net loss of \$7 million, a decrease from a net loss of \$12 million for the same period last year, primarily due to higher net investment income and lower operating expenses.

RISK MANAGEMENT AND CONTROL PRACTICES

The Company's Enterprise Risk Management (ERM) Framework facilitates the alignment of business strategy with risk appetite, informs and improves the deployment of capital; and supports the identification, mitigation and management of exposure to possible operational surprises, losses and risks. The Company's Risk Function is responsible for the Risk Appetite Framework (RAF), the supporting risk policies and risk limit structure, and provides independent risk oversight across the Company's operations. The Board of Directors is ultimately responsible for the Company's risk governance and associated risk policies. These include the ERM Policy, which establishes the guiding principles of risk management, and the RAF, which reflects the levels and types of risk that the Company is willing to accept to achieve its business objectives. During the second quarter of 2018, there were no significant changes to the Company's risk management and control practices. Refer to the Company's 2017 Annual MD&A for a detailed description of the Company's risk management and control practices.

ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Due to the evolving nature of IFRS, there are a number of IFRS changes impacting the Company in 2018, as well as standards that could impact the Company in future reporting periods. The Company actively monitors future IFRS changes proposed by the International Accounting Standards Board (IASB) to assess if the changes to the standards may have an impact on the Company's results or operations.

Effective January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) which replaces IAS 11, *Construction Contracts* and IAS 18, *Revenue*. The standard prescribes a five-step recognition and measurement model for revenue from contracts with customers and related costs. Revenue arising from insurance contracts, lease contracts and financial instruments are out of the scope of IFRS 15.

Fee income includes fees earned from management of segregated fund assets, proprietary mutual fund assets, record-keeping, fees earned on administrative services only Group health contracts, commissions and fees earned from management services. Under IFRS 15, the Company 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.

As a result of changes to the treatment of costs to fulfill a contract with the customer on transition to IFRS 15, the Company applied the modified retrospective approach and recorded an adjustment for the derecognition of certain deferred sales commissions and related income tax liabilities which resulted in a decrease of \$64 million to opening accumulated surplus at January 1, 2018.

In addition, the Company has reclassified fee and premium income amounts for 2017 comparative periods in the Consolidated Statements of Earnings and in this MD&A for the change in presentation of certain revenues and expenses on a gross or net basis. These reclassifications did not have an impact on the net earnings.

For a further description of the impact of the accounting policy change, refer to note 2 of the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018.

The Company adopted the narrow scope amendments to International Financial Reporting Standards (IFRS) for IAS 40, *Investment Property*, IFRS 2, *Share-based Payment*, IFRIC 22, *Foreign Currency Transactions and Advance Consideration* and *Annual Improvements 2014 - 2016 Cycle* for the amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards* and IAS 28, *Investments in Associates and Joint Ventures*, effective January 1, 2018. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

There have been no other significant changes to the future accounting policies that could impact the Company, in addition to the disclosure in the December 31, 2017 Annual MD&A.

OTHER INFORMATION

DISCLOSURE CONTROLS AND PROCEDURES

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

There have been no changes during the six month period ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions have not changed materially from December 31, 2017.

QUARTERLY FINANCIAL INFORMATION

Quarterly financial information (in \$ millions, except per share amounts)	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	Total revenue⁽¹⁾⁽²⁾	\$ 10,613	\$ 9,693	\$ 12,912	\$ 10,222	\$ 11,077	\$ 12,906	\$ 7,814
Common shareholders								
Net earnings								
Total	\$ 831	\$ 731	\$ 392	\$ 581	\$ 585	\$ 591	\$ 676	\$ 674
Basic - per share	0.839	0.740	0.397	0.587	0.591	0.598	0.686	0.682
Diluted - per share	0.839	0.739	0.396	0.587	0.590	0.597	0.685	0.681
Adjusted net earnings⁽³⁾								
Total	\$ 831	\$ 731	\$ 734	\$ 582	\$ 712	\$ 619	\$ 698	\$ 689
Basic - per share	0.839	0.740	0.742	0.589	0.719	0.627	0.709	0.697
Diluted - per share	0.839	0.739	0.741	0.588	0.718	0.625	0.707	0.696

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

⁽²⁾ Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers*, as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2018.

⁽³⁾ Adjusted net earnings attributable to common shareholders and adjusted net earnings per common share are non-IFRS measures of earnings performance. The following adjustments were made in each quarter:

	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Restructuring costs	\$ —	\$ —	\$ 4	\$ 1	\$ 127	\$ 28	\$ 22	\$ 15
Net charge on sale of equity investment	—	—	122	—	—	—	—	—
U.S. tax reform impact	—	—	216	—	—	—	—	—
Total Adjustments	\$ —	\$ —	\$ 342	\$ 1	\$ 127	\$ 28	\$ 22	\$ 15

Lifeco's consolidated net earnings attributable to common shareholders were \$831 million for the second quarter of 2018 compared to \$585 million reported a year ago. On a per share basis, this represents \$0.839 per common share (\$0.839 diluted) for the second quarter of 2018 compared to \$0.591 per common share (\$0.590 diluted) a year ago.

Total revenue for the second quarter of 2018 was \$10,613 million and comprises premium income of \$7,905 million, regular net investment income of \$1,575 million, a negative change in fair value through profit or loss on investment assets of \$350 million and fee and other income of \$1,483 million.

TRANSLATION OF FOREIGN CURRENCY

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

Translation of foreign currency						
Period ended	June 30 2018	Mar. 31 2018	Dec. 31 2017	Sept. 30 2017	June 30 2017	Mar. 31 2017
United States dollar						
Balance sheet	\$ 1.31	\$ 1.29	\$ 1.26	\$ 1.25	\$ 1.30	\$ 1.33
Income and expenses	\$ 1.29	\$ 1.26	\$ 1.27	\$ 1.25	\$ 1.34	\$ 1.32
British pound						
Balance sheet	\$ 1.73	\$ 1.81	\$ 1.70	\$ 1.67	\$ 1.69	\$ 1.67
Income and expenses	\$ 1.76	\$ 1.76	\$ 1.69	\$ 1.64	\$ 1.72	\$ 1.64
Euro						
Balance sheet	\$ 1.53	\$ 1.59	\$ 1.51	\$ 1.47	\$ 1.48	\$ 1.42
Income and expenses	\$ 1.54	\$ 1.55	\$ 1.50	\$ 1.47	\$ 1.48	\$ 1.41

Additional information relating to Lifeco, including Lifeco's most recent consolidated financial statements, CEO/CFO certification and Annual Information Form are available at www.sedar.com.

CONSOLIDATED STATEMENTS OF EARNINGS *(unaudited)*
(in Canadian \$ millions except per share amounts)

	For the three months ended			For the six months ended	
	June 30 2018	March 31 2018	June 30 2017 <small>(note 2)</small>	June 30 2018	June 30 2017 <small>(note 2)</small>
Income					
Premium income					
Gross premiums written	\$ 9,012	\$ 9,293	\$ 8,781	\$ 18,305	\$ 19,254
Ceded premiums	(1,107)	(1,119)	(1,020)	(2,226)	(2,139)
Total net premiums	<u>7,905</u>	<u>8,174</u>	<u>7,761</u>	<u>16,079</u>	<u>17,115</u>
Net investment income (note 4)					
Regular net investment income	1,575	1,573	1,591	3,148	3,060
Changes in fair value through profit or loss	(350)	(1,487)	304	(1,837)	1,039
Total net investment income	<u>1,225</u>	<u>86</u>	<u>1,895</u>	<u>1,311</u>	<u>4,099</u>
Fee and other income	1,483	1,433	1,421	2,916	2,769
	<u>10,613</u>	<u>9,693</u>	<u>11,077</u>	<u>20,306</u>	<u>23,983</u>
Benefits and expenses					
Policyholder benefits					
Gross	7,742	7,996	7,415	15,738	16,010
Ceded	(596)	(625)	(500)	(1,221)	(1,110)
Total net policyholder benefits	<u>7,146</u>	<u>7,371</u>	<u>6,915</u>	<u>14,517</u>	<u>14,900</u>
Policyholder dividends and experience refunds	442	458	462	900	1,020
Changes in insurance and investment contract liabilities	(32)	(1,049)	850	(1,081)	2,169
Total paid or credited to policyholders	<u>7,556</u>	<u>6,780</u>	<u>8,227</u>	<u>14,336</u>	<u>18,089</u>
Commissions	596	594	609	1,190	1,422
Operating and administrative expenses	1,241	1,237	1,154	2,478	2,359
Premium taxes	124	121	107	245	230
Financing charges	11	71	79	82	155
Amortization of finite life intangible assets	50	49	47	99	92
Restructuring expenses (note 14)	—	—	216	—	253
Earnings before income taxes	<u>1,035</u>	<u>841</u>	<u>638</u>	<u>1,876</u>	<u>1,383</u>
Income taxes (note 15)	153	77	51	230	147
Net earnings before non-controlling interests	<u>882</u>	<u>764</u>	<u>587</u>	<u>1,646</u>	<u>1,236</u>
Attributable to non-controlling interests	18	—	(28)	18	(1)
Net earnings	<u>864</u>	<u>764</u>	<u>615</u>	<u>1,628</u>	<u>1,237</u>
Preferred share dividends (note 11)	33	33	30	66	61
Net earnings - common shareholders	<u>\$ 831</u>	<u>\$ 731</u>	<u>\$ 585</u>	<u>\$ 1,562</u>	<u>\$ 1,176</u>
Earnings per common share (note 11)					
Basic	<u>\$ 0.839</u>	<u>\$ 0.740</u>	<u>\$ 0.591</u>	<u>\$ 1.579</u>	<u>\$ 1.189</u>
Diluted	<u>\$ 0.839</u>	<u>\$ 0.739</u>	<u>\$ 0.590</u>	<u>\$ 1.578</u>	<u>\$ 1.187</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(unaudited)*
(in Canadian \$ millions)

	For the three months ended			For the six months ended	
	June 30	March 31	June 30	June 30	June 30
	2018	2018	2017	2018	2017
Net earnings	\$ 864	\$ 764	\$ 615	\$ 1,628	\$ 1,237
Other comprehensive income (loss)					
Items that may be reclassified subsequently to Consolidated Statements of Earnings					
Unrealized foreign exchange gains (losses) on translation of foreign operations	(339)	755	(365)	416	(387)
Unrealized foreign exchange gains (losses) on euro debt designated as hedges of the net investment in foreign operations	60	(80)	(60)	(20)	(60)
Income tax (expense) benefit	(8)	11	8	3	8
Unrealized gains (losses) on available-for-sale assets	(15)	(87)	(41)	(102)	(11)
Income tax (expense) benefit	5	15	5	20	(1)
Realized (gains) losses on available-for-sale assets	4	1	(12)	5	(20)
Income tax expense (benefit)	(1)	—	2	(1)	4
Unrealized gains (losses) on cash flow hedges	(3)	26	(28)	23	(4)
Income tax (expense) benefit	1	(5)	10	(4)	1
Realized (gains) losses on cash flow hedges	(81)	12	411	(69)	411
Income tax expense (benefit)	20	(3)	(162)	17	(162)
Non-controlling interests	6	10	28	16	22
Income tax (expense) benefit	(2)	(4)	(6)	(6)	(4)
Total items that may be reclassified	(353)	651	(210)	298	(203)
Items that will not be reclassified to Consolidated Statements of Earnings					
Re-measurements on defined benefit pension and other post-employment benefit plans (note 13)	150	46	(96)	196	(113)
Income tax (expense) benefit	(34)	(9)	31	(43)	22
Non-controlling interests	(10)	(2)	11	(12)	17
Income tax (expense) benefit	2	1	(2)	3	(4)
Total items that will not be reclassified	108	36	(56)	144	(78)
Total other comprehensive income (loss)	(245)	687	(266)	442	(281)
Comprehensive income	\$ 619	\$ 1,451	\$ 349	\$ 2,070	\$ 956

CONSOLIDATED BALANCE SHEETS *(unaudited)*
(in Canadian \$ millions)

	June 30	December 31
	2018	2017
Assets		
Cash and cash equivalents	\$ 3,794	\$ 3,551
Bonds (note 4)	122,437	120,204
Mortgage loans (note 4)	24,206	22,185
Stocks (note 4)	9,226	8,864
Investment properties (note 4)	5,098	4,851
Loans to policyholders	8,611	8,280
	173,372	167,935
Assets held for sale (note 3)	—	169
Funds held by ceding insurers	9,581	9,893
Goodwill	6,480	6,179
Intangible assets	3,821	3,732
Derivative financial instruments	382	384
Owner occupied properties	720	706
Fixed assets	372	303
Other assets	2,604	2,424
Premiums in course of collection, accounts and interest receivable	4,990	4,647
Reinsurance assets (note 7)	6,095	5,045
Current income taxes	224	134
Deferred tax assets	937	930
Investments on account of segregated fund policyholders (note 8)	221,117	217,357
Total assets	\$ 430,695	\$ 419,838
Liabilities		
Insurance contract liabilities (note 7)	\$ 163,898	\$ 159,524
Investment contract liabilities (note 7)	1,769	1,841
Debentures and other debt instruments	6,031	5,617
Capital trust securities	160	160
Funds held under reinsurance contracts	1,383	373
Derivative financial instruments	1,250	1,336
Accounts payable	3,314	2,684
Other liabilities	3,445	3,752
Current income taxes	495	464
Deferred tax liabilities	1,213	1,194
Investment and insurance contracts on account of segregated fund policyholders (note 8)	221,117	217,357
Total liabilities	404,075	394,302
Equity		
Non-controlling interests		
Participating account surplus in subsidiaries	2,782	2,771
Non-controlling interests in subsidiaries	135	164
Shareholders' equity		
Share capital (note 10)		
Preferred shares	2,714	2,714
Common shares	7,291	7,260
Accumulated surplus	12,742	12,098
Accumulated other comprehensive income	828	386
Contributed surplus	128	143
Total equity	26,620	25,536
Total liabilities and equity	\$ 430,695	\$ 419,838

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(unaudited)*
(in Canadian \$ millions)

	June 30, 2018					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	\$ 9,974	\$ 143	\$ 12,098	\$ 386	\$ 2,935	\$ 25,536
Change in accounting policy (note 2)	—	—	(64)	—	—	(64)
Revised balance, beginning of year	9,974	143	12,034	386	2,935	25,472
Net earnings	—	—	1,628	—	18	1,646
Other comprehensive income (loss)	—	—	—	442	(1)	441
	9,974	143	13,662	828	2,952	27,559
Dividends to shareholders						
Preferred shareholders (note 11)	—	—	(66)	—	—	(66)
Common shareholders	—	—	(770)	—	—	(770)
Shares exercised and issued under share-based payment plans (note 10)	37	(41)	—	—	36	32
Share-based payment plans expense	—	26	—	—	—	26
Equity settlement of Putnam share-based plans	—	—	—	—	(57)	(57)
Shares purchased and cancelled under Normal Course Issuer Bid (note 10)	(29)	—	—	—	—	(29)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 10)	23	—	(23)	—	—	—
Acquisition of PanAgora non-controlling interest (note 3)	—	—	(54)	—	(21)	(75)
Dilution gain on non-controlling interests	—	—	(7)	—	7	—
Balance, end of period	\$ 10,005	\$ 128	\$ 12,742	\$ 828	\$ 2,917	\$ 26,620
	June 30, 2017					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	\$ 9,644	\$ 147	\$ 11,465	\$ 746	\$ 3,006	\$ 25,008
Net earnings	—	—	1,237	—	(1)	1,236
Other comprehensive income (loss)	—	—	—	(281)	(31)	(312)
	9,644	147	12,702	465	2,974	25,932
Dividends to shareholders						
Preferred shareholders (note 11)	—	—	(61)	—	—	(61)
Common shareholders	—	—	(726)	—	—	(726)
Shares exercised and issued under share-based payment plans (note 10)	133	(58)	—	—	45	120
Share-based payment plans expense	—	32	—	—	—	32
Equity settlement of Putnam share-based plans	—	—	—	—	(52)	(52)
Shares purchased and cancelled under Normal Course Issuer Bid (note 10)	(12)	—	—	—	—	(12)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 10)	10	—	(10)	—	—	—
Issuance of preferred shares	200	—	—	—	—	200
Share issue costs	—	—	(5)	—	—	(5)
Dilution loss on non-controlling interests	—	—	2	—	(2)	—
Disposal of investment in associate	—	—	(13)	13	—	—
Balance, end of period	\$ 9,975	\$ 121	\$ 11,889	\$ 478	\$ 2,965	\$ 25,428

CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*
(in Canadian \$ millions)

	For the six months ended June 30	
	2018	2017
Operations		
Earnings before income taxes	\$ 1,876	\$ 1,383
Income taxes paid, net of refunds received	(203)	(249)
Adjustments:		
Change in insurance and investment contract liabilities	(933)	2,149
Change in funds held by ceding insurers	328	431
Change in funds held under reinsurance contracts	(11)	10
Change in reinsurance assets	(24)	387
Changes in fair value through profit or loss	1,837	(1,039)
Other	(552)	(303)
	2,318	2,769
Financing Activities		
Issue of common shares (note 10)	37	118
Issue of preferred shares	—	200
Share issue costs	—	(5)
Purchased and cancelled common shares (note 10)	(29)	(12)
Issue of debentures and senior notes (note 9)	1,512	925
Repayment of debentures (note 9)	(1,096)	(1,284)
Decrease in line of credit of subsidiary	(120)	(54)
Decrease in debentures and other debt instruments	—	(37)
Dividends paid on common shares	(770)	(726)
Dividends paid on preferred shares	(66)	(61)
	(532)	(936)
Investment Activities		
Bond sales and maturities	13,151	14,143
Mortgage loan repayments	1,432	1,243
Stock sales	943	1,180
Investment property sales	20	16
Change in loans to policyholders	(110)	(103)
Proceeds from assets held for sale (note 3)	169	—
Business acquisitions, net of cash and cash equivalents acquired (note 3)	(222)	—
Investment in bonds	(13,241)	(15,050)
Investment in mortgage loans	(2,362)	(2,010)
Investment in stocks	(1,236)	(846)
Investment in investment properties	(162)	(262)
	(1,618)	(1,689)
Effect of changes in exchange rates on cash and cash equivalents	75	(5)
Increase in cash and cash equivalents	243	139
Cash and cash equivalents, beginning of period	3,551	3,259
Cash and cash equivalents, end of period	\$ 3,794	\$ 3,398
Supplementary cash flow information		
Interest income received	\$ 2,694	\$ 2,610
Interest paid	146	156
Dividend income received	124	118

CONDENSED NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

(in Canadian \$ millions except per share amounts)

1. Corporate Information

Great-West Lifeco Inc. (Lifeco or the Company) is a publicly listed company (Toronto Stock Exchange: GWO), incorporated and domiciled in Canada. The registered address of the Company is 100 Osborne Street North, Winnipeg, Manitoba, Canada, R3C 1V3. Lifeco is a member of the Power Corporation of Canada group of companies and its direct parent is Power Financial Corporation (Power Financial).

Lifeco is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada, the United States and Europe through its operating subsidiaries including The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (Great-West Financial) and Putnam Investments, LLC (Putnam).

The condensed consolidated interim unaudited financial statements (financial statements) of the Company as at and for the three and six months ended June 30, 2018 were approved by the Board of Directors on August 1, 2018.

2. Basis of Presentation and Summary of Accounting Policies

These financial statements should be read in conjunction with the Company's December 31, 2017 consolidated annual audited financial statements and notes thereto.

The financial statements of the Company at June 30, 2018 have been prepared in compliance with the requirements of International Accounting Standard (IAS) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) using the same accounting policies and methods of computation followed in the consolidated annual audited financial statements for the year ended December 31, 2017 except as described below.

Changes in Accounting Policies

Effective January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) which replaces IAS 11, *Construction Contracts* and IAS 18, *Revenue*. The standard prescribes a five-step recognition and measurement model for revenue from contracts with customers and related costs. Revenue arising from insurance contracts, lease contracts and financial instruments are out of the scope of IFRS 15.

Fee income includes fees earned from management of segregated fund assets, proprietary mutual fund assets, record-keeping, fees earned on administrative services only Group health contracts, commissions and fees earned from management services. Under IFRS 15, the Company 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.

As a result of changes to the treatment of costs to fulfill a contract with the customer on transition to IFRS 15, the Company applied the modified retrospective approach and recorded an adjustment for the derecognition of certain deferred sales commissions and related income tax liabilities which resulted in a decrease of \$64 to opening accumulated surplus at January 1, 2018.

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

Comparative Figures

In addition, the Company 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 in the U.S. segment where there was 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 and other income, operating and administrative expenses, and commissions were reclassified. These reclassifications were not significant and did not have an impact on the consolidated net earnings, the impact by line items on the Consolidated Statements of Earnings is as follows:

Increase (decrease)	Gross premiums written	Fee and other income	Commissions	Operating and administrative expenses
For the three months ended June 30, 2017				
Amounts previously reported	\$ 8,792	\$ 1,381	\$ 549	\$ 1,185
Reclassification	(11)	40	60	(31)
Revised amount presented	<u>\$ 8,781</u>	<u>\$ 1,421</u>	<u>\$ 609</u>	<u>\$ 1,154</u>
For the six months ended June 30, 2017				
Amounts previously reported	\$ 19,276	\$ 2,686	\$ 1,302	\$ 2,418
Reclassification	(22)	83	120	(59)
Revised amount presented	<u>\$ 19,254</u>	<u>\$ 2,769</u>	<u>\$ 1,422</u>	<u>\$ 2,359</u>

The Company adopted the narrow scope amendments to International Financial Reporting Standards (IFRS) for IAS 40, *Investment Property*, IFRS 2, *Share-based Payment*, IFRIC 22, *Foreign Currency Transactions and Advance Consideration* and *Annual Improvements 2014 - 2016 Cycle* for the amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards* and IAS 28, *Investments in Associates and Joint Ventures*, effective January 1, 2018. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

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

Use of Significant Judgments, Estimates and Assumptions

In preparation of these financial statements, management is required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Although some uncertainty is inherent in these judgments and estimates, management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty and areas where significant judgments have been made are further described in the relevant accounting policies as described in note 2 of the Company's December 31, 2017 consolidated annual audited financial statements and notes thereto.

The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The provision for future credit losses within the Company's insurance contract liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available. Management judgment is required when setting credit ratings for instruments that do not have a third-party credit rating.

3. Business Acquisitions, Disposals and Other Transactions

(a) Retirement Advantage

On January 2, 2018, the Company, 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.

At the date of acquisition, the assets acquired and liabilities assumed are as follows:

Assets acquired	
Bonds	\$ 1,748
Reinsurance assets	931
Mortgage loans - equity release mortgages	799
Cash and cash equivalents and other assets	261
Investments on account of segregated fund policyholders	950
Total assets acquired	<u>\$ 4,689</u>
Liabilities assumed	
Insurance contract liabilities	\$ 2,563
Funds held under reinsurance assets	997
Other liabilities	26
Investment and insurance contracts on account of segregated fund policyholders	950
Total liabilities assumed	<u>\$ 4,536</u>

As at June 30, 2018, the accounting for the acquisition is incomplete pending completion of a comprehensive valuation of the net assets acquired. The financial statements at June 30, 2018 reflect management'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 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 Company.

(b) EverWest Real Estate Partners

On February 2, 2018, the Company, 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.

(c) Acquisition of PanAgora Non-Controlling Interest

During the first quarter of 2018, the Company, through Putnam, acquired the non-controlling interest in PanAgora previously held by Nippon Life Insurance Company. This transaction decreased accumulated surplus and non-controlling interests by \$54 and \$21 respectively, with no impact on net earnings.

(d) Disposal of Assets Held for Sale

During the first quarter of 2018, the Company executed the final sale agreement and disposed of its assets held for sale totaling \$169 at December 31, 2017. The derecognition of these assets held for sale did not have an impact on net earnings for the periods ended June 30, 2018.

3. *Business Acquisitions, Disposals and Other Transactions (cont'd)*

(e) Invesco Ltd (Ireland)

On April 20, 2018, the Company, through its indirect wholly-owned subsidiary Irish Life Group Limited, 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.

(f) Sale of Policies to Scottish Friendly

On June 21, 2018, Canada Life Limited, an indirect wholly-owned subsidiary of the Company, announced an agreement to sell a heritage block of individual policies to 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, management 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 consolidated financial statements.

4. Portfolio Investments

(a) Carrying values and estimated fair values of portfolio investments are as follows:

	June 30, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss ⁽¹⁾	\$ 88,708	\$ 88,708	\$ 88,062	\$ 88,062
Classified fair value through profit or loss ⁽¹⁾	1,740	1,740	1,836	1,836
Available-for-sale	13,234	13,234	12,347	12,347
Loans and receivables	18,755	19,837	17,959	19,470
	122,437	123,519	120,204	121,715
Mortgage loans				
Residential				
Designated fair value through profit or loss ⁽¹⁾⁽³⁾	768	768	—	—
Loans and receivables	9,514	9,569	8,905	9,083
	10,282	10,337	8,905	9,083
Commercial	13,924	14,261	13,280	13,922
	24,206	24,598	22,185	23,005
Stocks				
Designated fair value through profit or loss ⁽¹⁾	8,613	8,613	8,097	8,097
Available-for-sale	11	11	55	55
Available-for-sale, at cost ⁽²⁾	251	251	348	348
Equity method	351	357	364	406
	9,226	9,232	8,864	8,906
Investment properties	5,098	5,098	4,851	4,851
Total	\$ 160,967	\$ 162,447	\$ 156,104	\$ 158,477

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

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

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

⁽³⁾ Equity release mortgages acquired with the acquisition of Retirement Advantage (note 3) 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 at Level 3 of the fair value hierarchy (note 6).

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4. Portfolio Investments (cont'd)

(b) Included in portfolio investments are the following:

Carrying amount of impaired investments

	June 30 2018	December 31 2017
Impaired amounts by classification		
Fair value through profit or loss	\$ 198	\$ 233
Available-for-sale	36	17
Loans and receivables	35	41
Total	\$ 269	\$ 291

The carrying amount of impaired investments includes \$225 bonds, \$31 mortgage loans and \$13 stocks at June 30, 2018 (\$246 bonds, \$34 mortgage loans and \$11 stocks at December 31, 2017). The above carrying values for loans and receivables are net of allowances of \$27 at June 30, 2018 and \$40 at December 31, 2017.

(c) Net investment income comprises the following:

For the three months ended June 30, 2018	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 1,115	\$ 227	\$ 70	\$ 85	\$ 110	\$ 1,607
Net realized gains (losses)						
Available-for-sale	(3)	—	1	—	—	(2)
Other classifications	3	2	—	—	21	26
Other income (expenses)	—	—	—	(24)	(32)	(56)
	1,115	229	71	61	99	1,575
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(6)	—	—	—	—	(6)
Designated fair value through profit or loss	(651)	(20)	316	—	15	(340)
Recorded at fair value through profit or loss	—	—	—	(4)	—	(4)
	(657)	(20)	316	(4)	15	(350)
Total	\$ 458	\$ 209	\$ 387	\$ 57	\$ 114	\$ 1,225

GREAT-WEST LIFECO INC.

4. Portfolio Investments (cont'd)

For the three months ended June 30, 2017	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 1,117	\$ 228	\$ 69	\$ 75	\$ 118	\$ 1,607
Net realized gains						
Available-for-sale	12	—	—	—	—	12
Other classifications	2	12	—	—	—	14
Net allowances for credit losses on loans and receivables	6	—	—	—	—	6
Other income (expenses)	—	—	—	(20)	(28)	(48)
	<u>1,137</u>	<u>240</u>	<u>69</u>	<u>55</u>	<u>90</u>	<u>1,591</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(8)	—	3	—	—	(5)
Designated fair value through profit or loss	353	—	(62)	—	(23)	268
Recorded at fair value through profit or loss	—	—	—	41	—	41
	<u>345</u>	<u>—</u>	<u>(59)</u>	<u>41</u>	<u>(23)</u>	<u>304</u>
Total	<u>\$ 1,482</u>	<u>\$ 240</u>	<u>\$ 10</u>	<u>\$ 96</u>	<u>\$ 67</u>	<u>\$ 1,895</u>

For the six months ended June 30, 2018	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,189	\$ 454	\$ 127	\$ 170	\$ 233	\$ 3,173
Net realized gains (losses)						
Available-for-sale	(5)	—	2	—	—	(3)
Other classifications	7	60	—	—	21	88
Other income (expenses)	—	—	—	(47)	(63)	(110)
	<u>2,191</u>	<u>514</u>	<u>129</u>	<u>123</u>	<u>191</u>	<u>3,148</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(13)	—	—	—	—	(13)
Designated fair value through profit or loss	(2,055)	(37)	58	—	156	(1,878)
Recorded at fair value through profit or loss	—	—	—	54	—	54
	<u>(2,068)</u>	<u>(37)</u>	<u>58</u>	<u>54</u>	<u>156</u>	<u>(1,837)</u>
Total	<u>\$ 123</u>	<u>\$ 477</u>	<u>\$ 187</u>	<u>\$ 177</u>	<u>\$ 347</u>	<u>\$ 1,311</u>

GREAT-WEST LIFECO_{INC.}

4. Portfolio Investments (cont'd)

For the six months ended June 30, 2017	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,151	\$ 451	\$ 135	\$ 156	\$ 209	\$ 3,102
Net realized gains						
Available-for-sale	20	—	—	—	—	20
Other classifications	11	25	—	—	—	36
Net allowances for credit losses on loans and receivables						
	6	(4)	—	—	—	2
Other income (expenses)	—	—	—	(41)	(59)	(100)
	<u>2,188</u>	<u>472</u>	<u>135</u>	<u>115</u>	<u>150</u>	<u>3,060</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	3	—	3	—	—	6
Designated fair value through profit or loss	882	—	96	—	(18)	960
Recorded at fair value through profit or loss	—	—	—	73	—	73
	<u>885</u>	<u>—</u>	<u>99</u>	<u>73</u>	<u>(18)</u>	<u>1,039</u>
Total	<u>\$ 3,073</u>	<u>\$ 472</u>	<u>\$ 234</u>	<u>\$ 188</u>	<u>\$ 132</u>	<u>\$ 4,099</u>

Investment income earned comprises income from investments that are classified as available-for-sale, loans and receivables and investments classified or designated as fair value through profit or loss. Investment income from bonds and mortgages includes interest income and premium and discount amortization. Income from stocks includes dividends, distributions from private equity and equity income from the investment in IGM Financial Inc. (IGM) and Allianz Ireland, which was disposed of during 2017. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

5. Financial Instruments Risk Management

The Company has policies relating to the identification, measurement, management, monitoring and reporting of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The Risk Committee of the Board of Directors is responsible for the oversight of the Company's key risks. The Company's approach to risk management has not substantially changed from that described in the Company's 2017 Annual Report. Certain risks have been outlined below. For a discussion of the Company's risk governance structure and risk management approach, see the "Financial Instruments Risk Management" note in the Company's December 31, 2017 consolidated annual audited financial statements and the "Risk Management and Control Practices" section in the Company's December 31, 2017 Management's Discussion and Analysis.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management.

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments when due.

Concentration of Credit Risk

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

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

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

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors which include three types: currency risk, interest rate (including related inflation) risk and equity risk.

Caution Related to Risk Sensitivities

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

- Assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered,
- Changes in actuarial, investment return and future investment activity assumptions,
- Actual experience differing from the assumptions,
- Changes in business mix, effective income tax rates and other market factors,
- Interactions among these factors and assumptions when more than one changes, and
- The general limitations of the Company's internal models.

5. *Financial Instruments Risk Management (cont'd)*

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

(i) **Currency Risk**

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

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

(ii) **Interest Rate Risk**

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability.

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

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

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

5. Financial Instruments Risk Management (cont'd)

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 the Company of a 1% change in the Company's view of the range of interest rates to be covered by these provisions. The following provides information on the effect of an immediate 1% increase or 1% decrease in the interest rates at both the low and high end of the range of interest rates recognized in the provisions:

	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)

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets and liabilities arising from changes in equity markets and other pricing risk. To mitigate pricing risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. The risks associated with segregated fund guarantees have been mitigated through a hedging program for lifetime Guaranteed Minimum Withdrawal Benefit guarantees using equity futures, currency forwards, and interest rate derivatives. For policies with segregated fund guarantees, the Company generally determines insurance contract liabilities at a conditional tail expectation of 75 (CTE75) level.

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

5. *Financial Instruments Risk Management (cont'd)*

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)

6. **Fair Value Measurement**

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

Level 1: Fair value measurements utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities, exchange-traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

Level 2: Fair value measurements utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 assets and liabilities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives, and 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: Fair value measurements utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single broker quotes, internal pricing models, or external appraisers. Assets and liabilities utilizing Level 3 inputs generally include certain bonds, certain asset-backed securities, some private equities, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, investment properties and equity release mortgages.

GREAT-WEST LIFECO_{INC.}

6. Fair Value Measurement (cont'd)

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

Assets measured at fair value	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,794	\$ —	\$ —	\$ 3,794
Financial assets at fair value through profit or loss				
Bonds	—	90,382	66	90,448
Mortgage loans	—	—	768	768
Stocks	8,327	2	284	8,613
Total financial assets at fair value through profit or loss	8,327	90,384	1,118	99,829
Available-for-sale financial assets				
Bonds	—	13,234	—	13,234
Stocks	3	7	1	11
Total available-for-sale financial assets	3	13,241	1	13,245
Investment properties	—	—	5,098	5,098
Funds held by ceding insurers	173	7,318	—	7,491
Derivatives ⁽¹⁾	5	377	—	382
Other assets:				
Trading account assets	636	262	—	898
Other ⁽²⁾	—	105	—	105
Total assets measured at fair value	\$ 12,938	\$ 111,687	\$ 6,217	\$ 130,842
Liabilities measured at fair value				
Derivatives ⁽³⁾	\$ 2	\$ 1,248	\$ —	\$ 1,250
Investment contract liabilities	—	1,748	21	1,769
Other liabilities	—	105	—	105
Total liabilities measured at fair value	\$ 2	\$ 3,101	\$ 21	\$ 3,124

⁽¹⁾ Excludes collateral received from counterparties of \$32.

⁽²⁾ Includes collateral received under securities lending agreements.

⁽³⁾ Excludes collateral pledged to counterparties of \$446.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the period.

GREAT-WEST
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6. Fair Value Measurement (cont'd)

Assets measured at fair value	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,551	\$ —	\$ —	\$ 3,551
Financial assets at fair value through profit or loss				
Bonds	—	89,833	65	89,898
Stocks	7,854	—	243	8,097
Total financial assets at fair value through profit or loss	7,854	89,833	308	97,995
Available-for-sale financial assets				
Bonds	—	12,347	—	12,347
Stocks	49	5	1	55
Total available-for-sale financial assets	49	12,352	1	12,402
Investment properties	—	—	4,851	4,851
Funds held by ceding insurers	132	7,806	—	7,938
Derivatives ⁽¹⁾	1	383	—	384
Assets held for sale	—	169	—	169
Other assets:				
Trading account assets	503	220	—	723
Total assets measured at fair value	<u>\$ 12,090</u>	<u>\$ 110,763</u>	<u>\$ 5,160</u>	<u>\$ 128,013</u>
Liabilities measured at fair value				
Derivatives ⁽²⁾	\$ 2	\$ 1,334	\$ —	\$ 1,336
Investment contract liabilities	—	1,819	22	1,841
Total liabilities measured at fair value	<u>\$ 2</u>	<u>\$ 3,153</u>	<u>\$ 22</u>	<u>\$ 3,177</u>

⁽¹⁾ Excludes collateral received from counterparties of \$77.

⁽²⁾ Excludes collateral pledged to counterparties of \$374.

There were no transfers of the Company's assets and liabilities between Level 1 and Level 2 in the period.

GREAT-WEST LIFECO INC.

6. Fair Value Measurement (cont'd)

The following presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	June 30, 2018						
	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks	Available- for-sale stocks	Investment properties	Total Level 3 assets	Investment contract liabilities
Balance, beginning of year	\$ 65	\$ —	\$ 243	\$ 1	\$ 4,851	\$ 5,160	\$ 22
Total gains							
Included in net earnings (loss)	—	(37)	9	—	54	26	—
Included in other comprehensive income ⁽¹⁾	1	15	—	—	51	67	—
Business acquisition (note 3)	—	799	—	—	—	799	—
Purchases	—	18	63	—	162	243	—
Sales	—	(27)	(31)	—	(20)	(78)	—
Other	—	—	—	—	—	—	(1)
Transfers into Level 3	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—
Balance, end of period	\$ 66	\$ 768	\$ 284	\$ 1	\$ 5,098	\$ 6,217	\$ 21
Total gains (losses) for the period included in net investment income	\$ —	\$ (37)	\$ 9	\$ —	\$ 54	\$ 26	\$ —
Change in unrealized gains (losses) for the period included in earnings for assets held at June 30, 2018	\$ —	\$ (37)	\$ 9	\$ —	\$ 53	\$ 25	\$ —

⁽¹⁾ Other comprehensive income includes unrealized gains (losses) on foreign exchange.

GREAT-WEST LIFECO INC.

6. Fair Value Measurement (cont'd)

December 31, 2017

	Fair value through profit or loss bonds	Fair value through profit or loss stocks	Available- for-sale stocks	Investment properties	Other assets - trading account	Total Level 3 assets	Investment contract liabilities
Balance, beginning of year	\$ 1	\$ 80	\$ 1	\$ 4,340	\$ 1	\$ 4,423	\$ 20
Total gains							
Included in net earnings	1	10	—	176	—	187	—
Included in other comprehensive income (loss) ⁽¹⁾	4	(3)	—	68	—	69	—
Purchases	—	166	—	339	—	505	—
Sales	—	(14)	—	(72)	(1)	(87)	—
Other	—	—	—	—	—	—	2
Transfers into Level 3	60	4	—	—	—	64	—
Transfers out of Level 3	(1)	—	—	—	—	(1)	—
Balance, end of year	\$ 65	\$ 243	\$ 1	\$ 4,851	\$ —	\$ 5,160	\$ 22
Total gains for the year included in net investment income	\$ 1	\$ 10	\$ —	\$ 176	\$ —	\$ 187	\$ —
Change in unrealized gains for the year included in earnings for assets held at December 31, 2017	\$ 1	\$ 10	\$ —	\$ 151	\$ —	\$ 162	\$ —

(1) Other comprehensive income includes unrealized gains (losses) on foreign exchange.

6. Fair Value Measurement (cont'd)

The following 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 Reversionary rate Vacancy rate	Range of 2.5% - 10.3% Range of 4.0% - 7.5% Weighted average of 2.4%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value. 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. 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.

7. Insurance and Investment Contract Liabilities

	June 30, 2018		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 163,898	\$ 6,095	\$ 157,803
Investment contract liabilities	1,769	—	1,769
Total	\$ 165,667	\$ 6,095	\$ 159,572

	December 31, 2017		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 159,524	\$ 5,045	\$ 154,479
Investment contract liabilities	1,841	—	1,841
Total	\$ 161,365	\$ 5,045	\$ 156,320

8. Segregated Funds

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

(a) Investments on account of segregated fund policyholders

	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
Stocks and units in unit trusts	96,797	93,465
Mutual funds	55,955	54,658
Investment properties	11,783	11,520
	<u>222,974</u>	<u>217,823</u>
Accrued income	400	373
Other liabilities	(3,197)	(2,441)
Non-controlling mutual funds interest	940	1,602
Total	<u><u>\$ 221,117</u></u>	<u><u>\$ 217,357</u></u>

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

	For the 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	—
Change in Segregated Fund investment in General Fund	48	(98)
Change in General Fund investment in Segregated Fund	(9)	(6)
Net transfer from General Fund	14	51
Non-controlling mutual funds interest	(662)	(677)
Total	<u>3,760</u>	<u>8,133</u>
Balance, end of period	<u><u>\$ 221,117</u></u>	<u><u>\$ 208,536</u></u>

⁽¹⁾ Investment and insurance contracts on account of segregated fund policyholders acquired through acquisition of Retirement Advantage (note 3).

8. Segregated Funds (cont'd)

(c) Investments on account of segregated fund policyholders by fair value hierarchy level (note 6)

	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.

	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.

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

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

	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.

For further details on the Company's risk and guarantee exposure and the management of these risks, refer to the "Segregated Fund and Variable Annuity Guarantees" section of the Company's Management's Discussion and Analysis for the period ended June 30, 2018 and the "Risk Management and Control Practices" section of the Company's December 31, 2017 Management's Discussion and Analysis.

9. Debentures and Other Debt Instruments

On February 28, 2018, the Company issued \$500 principal amount 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, the Company's 6.14% \$200 debenture notes matured at their principal amount together with accrued interest.

On May 17, 2018, Great-West Lifeco Finance 2018, LP issued \$384 (U.S. \$300) aggregate principal amount 4.047% senior notes due May 17, 2028 and \$640 (U.S. \$500) aggregate principal amount 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, LP II redeemed all \$399 (U.S. \$300) aggregate principal amount 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 on the interest rate hedge were recognized within financing charges and income tax expense of \$14 within the U.S. segment of the Consolidated Statements of Earnings.

On June 26, 2018, Great-West Lifeco Finance (Delaware) LP II redeemed all \$500 aggregate principal amount 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 debenture 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 to net investment income and \$8 to income tax expense within the U.S. segment of the Consolidated Statements of Earnings.

10. Share Capital

(a) Common Shares

	For the six months ended June 30			
	2018		2017	
	Number	Carrying value	Number	Carrying value
Common shares				
Balance, beginning of year	988,722,659	\$ 7,260	986,398,335	\$ 7,130
Purchased and cancelled under Normal Course Issuer Bid	(857,048)	(29)	(341,683)	(12)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid	—	23	—	10
Exercised and issued under stock option plan	1,104,409	37	3,840,404	133
Balance, end of period	988,970,020	\$ 7,291	989,897,056	\$ 7,261

During the six months ended June 30, 2018, 1,104,409 common shares were exercised under the Company's stock plan with a carrying value of \$37, including \$4 from contributed surplus transferred upon exercise (3,840,404 with a carrying value of \$133, including \$15 from contributed surplus transferred upon exercise during the six months ended June 30, 2017).

10. Share Capital (cont'd)

On January 10, 2018, the Company announced a normal course issuer bid commencing January 15, 2018 and terminating January 14, 2019 to purchase for cancellation up to but not more than 20,000,000 of its common shares at market prices.

During the six months ended June 30, 2018, the Company repurchased and subsequently cancelled 857,048 common shares under the current normal course issuer bid at a cost of \$29 (341,683 during the six months ended June 30, 2017 under the previous normal course issuer bid at a cost of \$12). The Company's share capital was reduced by the average carrying value of the shares repurchased for cancellation. The excess paid over the average carrying value was \$23 and was recognized as a reduction to equity during the six months ended June 30, 2018 (\$10 during the six months ended June 30, 2017 under the previous normal course issuer bid).

11. Earnings per Common Share

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Earnings				
Net earnings	\$ 864	\$ 615	\$ 1,628	\$ 1,237
Preferred share dividends	(33)	(30)	(66)	(61)
Net earnings - common shareholders	\$ 831	\$ 585	\$ 1,562	\$ 1,176
Number of common shares				
Average number of common shares outstanding	989,071,301	990,016,393	988,842,444	988,859,635
Add: Potential exercise of outstanding stock options	909,230	1,323,058	1,004,472	1,693,228
Average number of common shares outstanding - diluted basis	989,980,531	991,339,451	989,846,916	990,552,863
Basic earnings per common share	\$ 0.839	\$ 0.591	\$ 1.579	\$ 1.189
Diluted earnings per common share	\$ 0.839	\$ 0.590	\$ 1.578	\$ 1.187
Dividends per common share	\$ 0.3890	\$ 0.3670	\$ 0.7780	\$ 0.7340

12. Capital Management

(a) Policies and Objectives

Managing capital is the continual process of establishing and maintaining the quantity and quality of capital appropriate for the Company and ensuring capital is deployed in a manner consistent with the expectations of the Company's stakeholders. For these purposes, the Board considers the key stakeholders to be the Company's shareholders, policyholders and holders of subordinated liabilities in addition to the relevant regulators in the various jurisdictions where the Company and its subsidiaries operate.

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

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of the Company ensuring stable access to capital markets; and

12. Capital Management (cont'd)

- to provide an efficient capital structure to maximize shareholders value in the context of the Company's operational risks and strategic plans.

The capital planning process is the responsibility of the Company's Chief Financial Officer. The capital plan is approved by the Company's Board of Directors on an annual basis. The Board of Directors reviews and approves all external capital transactions undertaken by management.

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

(b) Regulatory Capital

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. The following provides a summary of the LICAT information and ratios for Great-West Life, for the reporting period ended June 30, 2018:

	June 30 2018
Tier 1 Capital	\$ 12,398
Tier 2 Capital	3,262
Total Available Capital	15,660
Surplus Allowance & Eligible Deposits	10,130
Total Capital Resources	\$ 25,790
Base Solvency Buffer (includes 1.05 scalar)	\$ 19,429
Total LICAT Ratio (OSFI Supervisory Target = 100%) ⁽¹⁾	133%

⁽¹⁾ Total Ratio (%) = (Total Capital Resources / Base Solvency Buffer (after 1.05 scalar))

Other foreign operations and foreign subsidiaries of the Company are required to comply with local capital or solvency requirements in their respective jurisdictions.

13. Pension Plans and Other Post-Employment Benefits

The total pension plans and other post-employment benefits expense included in operating expenses and other comprehensive income are as follows:

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Pension plans				
Service costs	\$ 55	\$ 56	\$ 114	\$ 107
Net interest costs	7	7	13	13
Curtailment	(1)	(2)	(1)	(2)
	61	61	126	118
Other post-employment benefits				
Service costs	—	—	1	1
Net interest costs	4	4	7	7
	4	4	8	8
Pension plans and other post-employment benefits expense - Consolidated Statements of Earnings	65	65	134	126
Pension plans - re-measurements				
Actuarial (gain) loss	(95)	122	(194)	225
Return on assets greater than assumed	(71)	(30)	(14)	(113)
Administrative expenses less than assumed	—	(1)	(1)	(2)
Change in the asset ceiling	23	(4)	23	(16)
Actuarial loss - investment in associate	—	—	—	1
Pension plans re-measurement (gain) loss	(143)	87	(186)	95
Other post-employment benefits - re-measurements				
Actuarial (gain) loss	(7)	9	(10)	18
Pension plans and other post-employment benefits re-measurements - other comprehensive (income) loss	(150)	96	(196)	113
Total pension plans and other post-employment benefits (income) expense including re-measurements	\$ (85)	\$ 161	\$ (62)	\$ 239

The following sets out the weighted average discount rate used to re-measure the defined benefit obligation for pension plans and other post-employment benefits at the following dates:

	June 30		March 31		December 31	
	2018	2017	2018	2017	2017	2016
Weighted average discount rate	3.3%	3.2%	3.2%	3.3%	3.1%	3.4%

14. Restructuring Expenses

Canadian Business Transformation

At June 30, 2018, the Company has a restructuring provision of \$46 remaining in other liabilities. The change in the restructuring provision for the Canadian Business Transformation is set out below:

Balance, beginning of year	\$	120
Amounts used		(74)
Balance, end of period		<u><u>46</u></u>

15. Income Taxes

(a) Income Tax Expense

Income tax expense (recovery) consists of the following:

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Current income taxes	\$ 81	\$ 134	\$ 165	\$ 238
Deferred income taxes	72	(83)	65	(91)
Total income tax expense	<u><u>\$ 153</u></u>	<u><u>\$ 51</u></u>	<u><u>\$ 230</u></u>	<u><u>\$ 147</u></u>

(b) Effective Income Tax Rate

The effective income tax rates are generally lower than the Company's statutory income tax rate of 27% due to benefits related to non-taxable investment income and lower income tax in certain foreign jurisdictions.

The overall effective income tax rate for the three months ended June 30, 2018 was 14.8% compared to 8.0% for the three months ended June 30, 2017. The overall effective income tax rate for the six months ended June 30, 2018 was 12.2% compared to 10.6% for the six months ended June 30, 2017.

The effective income tax rates for the three and six months ended June 30, 2018 are higher than the effective income tax rates for the same periods last year primarily due to changes in certain tax estimates.

16. Segmented Information

Consolidated Net Earnings

For the three months ended June 30, 2018

	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	\$ 3,141	\$ 894	\$ 3,870	\$ —	\$ 7,905
Net investment income					
Regular net investment income	666	462	445	2	1,575
Changes in fair value through profit or loss	249	(260)	(339)	—	(350)
Total net investment income	915	202	106	2	1,225
Fee and other income	433	655	395	—	1,483
	<u>4,489</u>	<u>1,751</u>	<u>4,371</u>	<u>2</u>	<u>10,613</u>
Benefits and expenses					
Paid or credited to policyholders	3,184	894	3,478	—	7,556
Other ⁽¹⁾	812	686	458	5	1,961
Financing charges	32	(31)	10	—	11
Amortization of finite life intangible assets	20	22	8	—	50
Restructuring expenses	—	—	—	—	—
Earnings (loss) before income taxes	<u>441</u>	<u>180</u>	<u>417</u>	<u>(3)</u>	<u>1,035</u>
Income taxes (recovery)	92	31	31	(1)	153
Net earnings (loss) before non-controlling interests	<u>349</u>	<u>149</u>	<u>386</u>	<u>(2)</u>	<u>882</u>
Non-controlling interests	17	1	—	—	18
Net earnings (loss)	<u>332</u>	<u>148</u>	<u>386</u>	<u>(2)</u>	<u>864</u>
Preferred share dividends	29	—	4	—	33
Net earnings (loss) before capital allocation	<u>303</u>	<u>148</u>	<u>382</u>	<u>(2)</u>	<u>831</u>
Impact of capital allocation	31	(3)	(27)	(1)	—
Net earnings (loss) - common shareholders	<u>\$ 334</u>	<u>\$ 145</u>	<u>\$ 355</u>	<u>\$ (3)</u>	<u>\$ 831</u>

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

GREAT-WEST LIFECO INC.

16. Segmented Information (cont'd)

For the three months ended June 30, 2017

	Canada	United States	Europe	Lifeco Corporate	Total
	(note 2)	(note 2)			(note 2)
Income					
Total net premiums	\$ 3,178	\$ 942	\$ 3,641	\$ —	\$ 7,761
Net investment income					
Regular net investment income	642	451	496	2	1,591
Changes in fair value through profit or loss	282	274	(252)	—	304
Total net investment income	924	725	244	2	1,895
Fee and other income	417	658	346	—	1,421
	<u>4,519</u>	<u>2,325</u>	<u>4,231</u>	<u>2</u>	<u>11,077</u>
Benefits and expenses					
Paid or credited to policyholders	3,333	1,476	3,418	—	8,227
Other ⁽¹⁾	790	673	405	2	1,870
Financing charges	31	37	10	1	79
Amortization of finite life intangible assets	17	22	8	—	47
Restructuring expenses	215	—	1	—	216
Earnings (loss) before income taxes	133	117	389	(1)	638
Income taxes (recovery)	(22)	28	45	—	51
Net earnings (loss) before non-controlling interests	155	89	344	(1)	587
Non-controlling interests	(31)	3	—	—	(28)
Net earnings (loss)	186	86	344	(1)	615
Preferred share dividends	26	—	4	—	30
Net earnings (loss) before capital allocation	160	86	340	(1)	585
Impact of capital allocation	25	(4)	(19)	(2)	—
Net earnings (loss) - common shareholders	<u>\$ 185</u>	<u>\$ 82</u>	<u>\$ 321</u>	<u>\$ (3)</u>	<u>\$ 585</u>

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

GREAT-WEST LIFECO_{INC.}

16. Segmented Information (cont'd)

For the six months ended June 30, 2018

	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	\$ 6,292	\$ 1,968	\$ 7,819	\$ —	\$ 16,079
Net investment income					
Regular net investment income	1,278	903	962	5	3,148
Changes in fair value through profit or loss	(85)	(840)	(912)	—	(1,837)
Total net investment income	1,193	63	50	5	1,311
Fee and other income	871	1,286	759	—	2,916
	8,356	3,317	8,628	5	20,306
Benefits and expenses					
Paid or credited to policyholders	5,823	1,646	6,867	—	14,336
Other ⁽¹⁾	1,628	1,360	915	10	3,913
Financing charges	64	(2)	20	—	82
Amortization of finite life intangible assets	40	43	16	—	99
Restructuring expenses	—	—	—	—	—
Earnings (loss) before income taxes	801	270	810	(5)	1,876
Income taxes (recovery)	138	44	49	(1)	230
Net earnings (loss) before non-controlling interests	663	226	761	(4)	1,646
Non-controlling interests	17	1	—	—	18
Net earnings (loss)	646	225	761	(4)	1,628
Preferred share dividends	57	—	9	—	66
Net earnings (loss) before capital allocation	589	225	752	(4)	1,562
Impact of capital allocation	61	(5)	(53)	(3)	—
Net earnings (loss) - common shareholders	\$ 650	\$ 220	\$ 699	\$ (7)	\$ 1,562

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

GREAT-WEST LIFECO INC.

16. Segmented Information (cont'd)

For the six months ended June 30, 2017

	Canada	United States	Europe	Lifeco Corporate	Total
	(note 2)	(note 2)			(note 2)
Income					
Total net premiums	\$ 6,462	\$ 2,171	\$ 8,482	\$ —	\$ 17,115
Net investment income					
Regular net investment income	1,255	906	898	1	3,060
Changes in fair value through profit or loss	657	376	6	—	1,039
Total net investment income	1,912	1,282	904	1	4,099
Fee and other income	822	1,277	670	—	2,769
	<u>9,196</u>	<u>4,730</u>	<u>10,056</u>	<u>1</u>	<u>23,983</u>
Benefits and expenses					
Paid or credited to policyholders	6,578	3,028	8,483	—	18,089
Other ⁽¹⁾	1,825	1,384	791	11	4,011
Financing charges	61	71	22	1	155
Amortization of finite life intangible assets	34	43	15	—	92
Restructuring expenses	215	17	21	—	253
Earnings (loss) before income taxes	483	187	724	(11)	1,383
Income taxes (recovery)	43	39	68	(3)	147
Net earnings (loss) before non-controlling interests	440	148	656	(8)	1,236
Non-controlling interests	(2)	2	(1)	—	(1)
Net earnings (loss)	442	146	657	(8)	1,237
Preferred share dividends	52	—	9	—	61
Net earnings (loss) before capital allocation	390	146	648	(8)	1,176
Impact of capital allocation	50	(8)	(38)	(4)	—
Net earnings (loss) - common shareholders	<u>\$ 440</u>	<u>\$ 138</u>	<u>\$ 610</u>	<u>\$ (12)</u>	<u>\$ 1,176</u>

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

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