
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED SEPTEMBER 30, 2018
DATED: OCTOBER 31, 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 three and nine months ended September 30, 2018 and includes a comparison to the corresponding periods in 2017, to the three months ended June 30, 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 September 30, 2018. Also refer to the 2017 Annual MD&A and audited consolidated financial statements in the Company's 2017 Annual Report.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A may contain forward-looking information. Forward-looking information includes statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "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 and expected cost reductions and savings. 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 information. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking information whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES

This MD&A contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "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 where applicable.

CONSOLIDATED OPERATING RESULTS

Selected consolidated financial information (in Canadian \$ millions, except for per share amounts)					
	As at or for the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017⁽⁴⁾	Sept. 30 2018	Sept. 30 2017
Premiums and deposits:					
Amounts reported in the financial statements					
Net premium income (Life insurance, guaranteed annuities and insured health products)	\$ 10,337	\$ 7,905	\$ 8,293	\$ 26,416	\$ 25,408
Policyholder deposits (segregated funds):					
Individual products	3,833	4,142	3,641	11,963	11,680
Group products	1,790	1,954	1,634	6,166	5,839
Premiums and deposits reported in the financial statements	15,960	14,001	13,568	44,545	42,927
Self-funded premium equivalents (administrative services only contracts) ⁽¹⁾	744	774	671	2,266	2,107
Proprietary mutual funds and institutional deposits ⁽¹⁾	17,878	19,196	14,272	54,868	45,425
Total premiums and deposits⁽¹⁾⁽²⁾	34,582	33,971	28,511	101,679	90,459
Fee and other income⁽²⁾	1,483	1,483	1,400	4,399	4,169
Net policyholder benefits, dividends and experience refunds	7,653	7,588	6,849	23,070	22,769
Earnings					
Net earnings - common shareholders	\$ 689	\$ 831	\$ 581	\$ 2,251	\$ 1,757
Adjustments ⁽⁷⁾	56	—	1	56	156
Adjusted net earnings - common shareholders ⁽⁷⁾	745	831	582	2,307	1,913
Per common share					
Basic earnings	0.697	0.839	0.587	2.277	1.776
Adjusted basic earnings ⁽⁷⁾	0.754	0.839	0.589	2.333	1.934
Dividends paid	0.389	0.389	0.367	1.167	1.101
Book value	21.25	21.22	19.92		
Return on common shareholders' equity⁽³⁾					
Net earnings	12.8%	12.5%	12.4%		
Adjusted net earnings ⁽⁷⁾	14.7%	14.2%	13.3%		
Total assets per financial statements⁽⁴⁾	\$ 429,082	\$ 430,695	\$ 406,768		
Proprietary mutual funds and institutional net assets ⁽⁵⁾	293,766	294,890	268,994		
Total assets under management⁽⁵⁾	722,848	725,585	675,762		
Other assets under administration ⁽⁶⁾	718,410	697,680	618,532		
Total assets under administration	\$1,441,258	\$1,423,265	\$1,294,294		
Total equity	\$ 26,624	\$ 26,620	\$ 25,386		

⁽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 September 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 audited 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 financial measures of earnings performance. For the third quarter of 2018, adjustments were \$56 million of restructuring costs relating to the Company's U.K. operations (nil for the first and second quarters of 2018). The following adjustments were made for the nine months ended September 30, 2017:

	Segment				EPS Impact
	Canada	United States	Europe	Total	
2017 Adjustments:					
Q1 Restructuring costs	\$ —	\$ 11	\$ 17	\$ 28	\$ 0.029
Q2 Restructuring costs	126	—	1	127	0.128
Q3 Restructuring costs	—	—	1	1	0.002
Total Adjustments	\$ 126	\$ 11	\$ 19	\$ 156	\$ 0.158

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 September 30, 2018 were \$689 million compared to \$581 million a year ago and \$831 million in the previous quarter. On a per share basis, this represents \$0.697 per common share (\$0.697 diluted) compared to \$0.587 per common share (\$0.587 diluted) a year ago and \$0.839 per common share (\$0.839 diluted) in the previous quarter. Included in Lifeco's net earnings for the third quarter of 2018 were restructuring costs of \$56 million related to the Company's U.K. operations compared to \$1 million related to the Company's retail business in Ireland for the same period last year. Excluding these costs, adjusted net earnings for the third quarter of 2018 were \$745 million or \$0.754 per common share (\$0.753 diluted) compared to \$582 million or \$0.589 per common share (\$0.588 diluted) in the prior year. Lifeco's net earnings for the third quarter of 2017 also included a provision of \$175 million related to the impact of 2017 Atlantic hurricane activity, which reduced earnings per common share by \$0.177.

For the nine months ended September 30, 2018, Lifeco's net earnings were \$2,251 million compared to \$1,757 million a year ago. On a per share basis, this represents \$2.277 per common share (\$2.275 diluted) for 2018 compared to \$1.776 per common share (\$1.773 diluted) a year ago. Included in Lifeco's net earnings for the nine months ended September 30, 2018 were restructuring costs of \$56 million related to the Company's U.K. operations compared to \$156 million related to all segments for the same period last year. Excluding the impact of these costs, adjusted net earnings for the nine months ended September 30, 2018 were \$2,307 million or \$2.333 per common share (\$2.331 diluted), compared to \$1,913 million or \$1.934 per common share (\$1.931 diluted) a year ago. Included in Lifeco's net earnings for the nine months ended September 30, 2018 was a net positive impact of \$60 million arising from refinancing in the U.S. segment completed in the second quarter of 2018.

Net earnings - common shareholders

	For the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018 ⁽²⁾	Sept. 30 2017 ⁽³⁾	Sept. 30 2018 ⁽²⁾	Sept. 30 2017 ⁽³⁾
Canada					
Individual Customer	\$ 165	\$ 211	\$ 141	\$ 514	\$ 427
Group Customer	150	194	155	486	448
Canada Corporate ⁽¹⁾	—	(71)	—	(35)	(139)
	315	334	296	965	736
United States					
Financial Services	121	101	104	313	277
Asset Management	(8)	(8)	6	(32)	(16)
U.S. Corporate ⁽¹⁾⁽²⁾	—	52	—	52	(13)
	113	145	110	333	248
Europe					
Insurance & Annuities	240	281	233	765	697
Reinsurance ⁽³⁾	87	97	(41)	288	123
Europe Corporate ⁽¹⁾	(64)	(23)	(8)	(91)	(26)
	263	355	184	962	794
Lifeco Corporate	(2)	(3)	(9)	(9)	(21)
Net earnings - common shareholders	\$ 689	\$ 831	\$ 581	\$ 2,251	\$ 1,757
Adjustments ⁽¹⁾					
Restructuring costs	56	—	1	56	156
Adjusted net earnings - common shareholders	\$ 745	\$ 831	\$ 582	\$ 2,307	\$ 1,913

⁽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 arising from refinancing in the U.S. segment completed in the second quarter of 2018.

⁽³⁾ Reinsurance net earnings for the third quarter of 2017 included a provision of \$175 million related to the impact of 2017 Atlantic hurricane activity.

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 September 30, 2018.

Equity Markets

In the regions where the Company operates, average equity market levels in the third quarter of 2018 mostly increased compared to the same period in 2017; however, ended the quarter at mixed market levels compared to June 30, 2018. Relative to the Company's expectation, the change in average market levels and market volatility had a positive impact of \$1 million on net earnings during the third quarter of 2018 and \$2 million year-to-date (negligible impact in the third quarter of 2017 and \$9 million positive impact year-to-date), 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 negatively impacted by approximately \$2 million in the third quarter of 2018 and positively impacted by \$9 million year-to-date in 2018 (\$5 million positive impact in the third quarter of 2017 and \$19 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 third quarter of 2018 to the third quarter of 2017, average equity market levels were up by 7% in Canada (as measured by S&P TSX), 15% 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 third quarter of 2018 down by 1% in Canada and 2% in the U.K. and up by 7% in the U.S. and less than 1% in broader Europe compared to June 30, 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 third quarter of 2018 increased for the U.S. dollar, British pound and the euro compared to the third quarter of 2017. The overall impact of currency movement on the Company's net earnings for the three month period ended September 30, 2018 was an increase of \$16 million (\$38 million year-to-date) compared to translation rates a year ago.

From June 30, 2018 to September 30, 2018, the exchange rates at the end of the reporting period used to translate U.S. dollar, British pound and euro assets and liabilities to the Canadian dollar decreased. The movements in end-of-period exchange rates resulted in unrealized foreign exchange losses from the translation of foreign operations, including related hedging activities, of \$308 million in-quarter (\$91 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 third quarter of 2018, the Company updated a number of actuarial assumptions resulting in a positive net earnings impact of \$203 million, compared to \$134 million for the same quarter last year and \$209 million for the previous quarter. In Europe, net earnings were positively impacted by \$114 million primarily due to updated life and annuitant mortality assumptions and updated economic assumptions, partially offset by updated policyholder behaviour assumptions. In Canada, net earnings were positively impacted by \$50 million primarily due to updated economic and morbidity assumptions. In the U.S., net earnings were positively impacted by \$39 million primarily due to updated policyholder behaviour, life and annuitant mortality assumptions, partially offset by modeling refinements.

For the nine months ended September 30, 2018, actuarial assumption changes resulted in a positive net earnings impact of \$533 million, compared to \$208 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.

Premiums and deposits

	For the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017 ⁽¹⁾	Sept. 30 2018	Sept. 30 2017 ⁽¹⁾
Canada					
Individual Customer	\$ 2,419	\$ 2,564	\$ 2,499	\$ 7,599	\$ 8,071
Group Customer ⁽¹⁾	3,850	3,774	3,648	12,061	11,594
	6,269	6,338	6,147	19,660	19,665
United States					
Financial Services	3,230	3,182	3,140	9,522	9,816
Asset Management	14,128	15,002	10,404	42,365	34,483
	17,358	18,184	13,544	51,887	44,299
Europe					
Insurance & Annuities	7,848	6,240	5,983	20,500	16,761
Reinsurance	3,107	3,209	2,837	9,632	9,734
	10,955	9,449	8,820	30,132	26,495
Total premiums and deposits⁽¹⁾	\$ 34,582	\$ 33,971	\$ 28,511	\$ 101,679	\$ 90,459

Sales

	For the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017	Sept. 30 2018	Sept. 30 2017
Canada	\$ 2,877	\$ 3,040	\$ 2,940	\$ 9,739	\$ 9,836
United States	24,284	24,508	21,173	73,868	62,459
Europe - Insurance & Annuities	7,235	5,535	5,362	18,509	14,613
Total sales	\$ 34,396	\$ 33,083	\$ 29,475	\$ 102,116	\$ 86,908

⁽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 September 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 nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017	Sept. 30 2018	Sept. 30 2017
Investment income earned (net of investment properties expenses)	\$ 1,598	\$ 1,583	\$ 1,545	\$ 4,724	\$ 4,606
Net allowances for credit losses on loans and receivables	(4)	—	(3)	(4)	(1)
Net realized gains	15	24	5	100	61
Regular investment income	1,609	1,607	1,547	4,820	4,666
Investment expenses	(31)	(32)	(30)	(94)	(89)
Regular net investment income	1,578	1,575	1,517	4,726	4,577
Changes in fair value through profit or loss	(1,371)	(350)	(988)	(3,208)	51
Net investment income	\$ 207	\$ 1,225	\$ 529	\$ 1,518	\$ 4,628

Net investment income in the third quarter of 2018, which includes changes in fair value through profit or loss, decreased by \$322 million compared to the same quarter last year. The changes in fair value in the third quarter of 2018 were a decrease of \$1,371 million compared to a decrease of \$988 million for the third quarter of 2017, primarily due to a greater increase in U.K. and U.S. bond yields in the third quarter of 2018 compared to the same quarter last year.

Regular net investment income in the third quarter of 2018 of \$1,578 million, which excludes changes in fair value through profit or loss, increased by \$61 million compared to the same quarter last year. The increase was primarily due to the impact of currency movement as the British pound, U.S. dollar and euro strengthened against the Canadian dollar, as well as higher net realized gains primarily driven by early mortgage redemptions. Net realized gains include losses on available-for-sale securities of \$2 million for the third quarter of 2018 compared to \$3 million for the same quarter last year.

For the nine months ended September 30, 2018, net investment income decreased by \$3,110 million compared to the same period last year. The changes in fair value for the nine month period in 2018 were a decrease of \$3,208 million compared to an increase of \$51 million during the same period in 2017. The decrease was primarily due to an increase in bond yields across all geographies in 2018; while in the previous year, the movement of bond yields was mixed, as yield increases in Canada and the U.K. were offset by declines in the U.S.

Regular net investment income for the nine months ended September 30, 2018 increased by \$149 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 \$5 million for the nine months ended September 30, 2018 compared to gains of \$17 million for the same period last year. Net realized gains also include realized gains arising from refinancing in the U.S. segment completed in the second quarter of 2018.

Net investment income in the third quarter of 2018 decreased by \$1,018 million compared to the previous quarter, primarily due to a decrease in fair values of \$1,371 million in the third quarter of 2018 compared to a decrease of \$350 million in the previous quarter. The net change in fair value was primarily due to an increase in bond yields during the third quarter of 2018 compared to mixed yield movement in the second quarter of 2018.

Credit Markets

In the third quarter of 2018, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholders' net earnings by \$3 million (\$1 million net charge in the third quarter of 2017). Changes in credit ratings in the Company's fixed income portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by \$28 million (\$6 million net negative impact in the third quarter of 2017). The in-quarter negative impact was primarily driven by downgrades to mortgages on certain U.K. retail properties.

For the nine months ended September 30, 2018, the Company experienced net recoveries on impaired investments, including dispositions, which positively impacted common shareholders' net earnings by \$5 million (\$2 million net charge year-to-date in 2017). Changes in credit ratings in the Company's fixed income portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by \$25 million year-to-date (negligible impact year-to-date in 2017), driven by the same reasons discussed for the in-quarter results.

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 September 30, 2018 condensed consolidated interim unaudited financial statements.

Fee and other income	For the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017 ⁽¹⁾	Sept. 30 2018	Sept. 30 2017 ⁽¹⁾
Canada					
Segregated funds, mutual funds and other ⁽¹⁾	\$ 389	\$ 383	\$ 382	\$ 1,162	\$ 1,106
ASO contracts ⁽¹⁾	48	50	44	146	142
	437	433	426	1,308	1,248
United States					
Segregated funds, mutual funds and other ⁽¹⁾	673	655	626	1,959	1,903
Europe					
Segregated funds, mutual funds and other	373	395	348	1,132	1,018
Total fee and other income⁽¹⁾	\$ 1,483	\$ 1,483	\$ 1,400	\$ 4,399	\$ 4,169

⁽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 September 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 nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017	Sept. 30 2018	Sept. 30 2017
Canada	\$ 2,305	\$ 2,369	\$ 2,209	\$ 7,052	\$ 7,054
United States	1,266	1,037	912	3,420	3,072
Europe	4,082	4,182	3,728	12,598	12,643
Total	\$ 7,653	\$ 7,588	\$ 6,849	\$ 23,070	\$ 22,769

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 September 30, 2018, net policyholder benefits, dividends and experience refunds were \$7.7 billion, an increase of \$0.8 billion from the same period last year driven by higher net policyholder benefits. The increase in benefit payments was primarily due to higher surrender benefits in Empower Retirement and Individual Markets in the U.S. segment as well as new reinsurance agreements and higher volumes relating to existing business in Europe.

For the nine months ended September 30, 2018, net policyholder benefits, dividends and experience refunds were \$23.1 billion, an increase of \$0.3 billion from the same period last year driven by higher net policyholder benefits. The increase in benefit payments was primarily due to higher surrender benefits in Empower Retirement and Individual Markets in the U.S. segment.

Compared to the previous quarter, net policyholder benefits, dividends and experience refunds increased by \$0.1 billion, primarily due to higher surrender benefits in Empower Retirement and Individual Markets in the U.S. segment, mostly offset by lower volumes relating to existing business in Europe.

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 third quarter of 2018, the Company had an effective income tax rate of 13%, which was comparable to the effective income tax rate in the third quarter of 2017. The effective income tax rate for the third quarter of 2018 was favourably impacted by a higher percentage of income subject to lower rates in foreign jurisdictions, including the impact of the lower U.S. corporate federal income tax rate.

The Company had an effective income tax rate of 13% for the nine months ended September 30, 2018 compared to 11% for the same period last year. The effective income tax rate for the nine months ended September 30, 2018 was less favourably impacted by changes in certain tax estimates as compared to the previous year.

In the third quarter of 2018, the Company had an effective income tax rate of 13%, down from 15% in the second quarter of 2018 primarily due to changes in certain tax estimates partially offset by a lower percentage of income subject to lower rates in foreign jurisdictions.

CONSOLIDATED FINANCIAL POSITION

ASSETS

	September 30, 2018			
	Canada	United States	Europe	Total
Assets under administration				
Assets				
Invested assets	\$ 74,774	\$ 44,761	\$ 53,598	\$ 173,133
Goodwill and intangible assets	5,504	2,024	2,822	10,350
Other assets	3,226	4,132	18,034	25,392
Segregated funds net assets	81,161	32,971	106,075	220,207
Total assets	164,665	83,888	180,529	429,082
Proprietary mutual funds and institutional net assets	7,216	246,151	40,399	293,766
Total assets under management	171,881	330,039	220,928	722,848
Other assets under administration	13,773	659,602	45,035	718,410
Total assets under administration	\$ 185,654	\$ 989,641	\$ 265,963	\$ 1,441,258
	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 September 30, 2018 increased by \$91.3 billion to \$1.4 trillion compared to December 31, 2017, primarily due to positive market and currency movement as well as new business growth. The increase of \$2.2 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. The increase of \$3.1 billion in the Europe segment's other assets under administration was primarily due to the acquisition of Invesco Ltd (Ireland) in the third quarter of 2018, which included \$4.3 billion of other assets under administration.

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 \$122.1 billion or 71% of invested assets at September 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 79% rated A or higher.

Bond portfolio quality

	September 30, 2018		December 31, 2017	
AAA	\$ 23,180	19 %	\$ 24,889	21%
AA	33,304	27	32,405	27
A	40,822	33	40,328	33
BBB	23,888	20	21,449	18
BB or lower	915	1	1,133	1
Total	\$ 122,109	100 %	\$ 120,204	100%

Mortgage portfolio – It is the Company's practice to acquire high quality commercial mortgages meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk-rating system, which it uses in its underwriting and credit monitoring processes for commercial loans. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well diversified across each geographic region, including specific diversification requirements for non-insured mortgages. 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	September 30, 2018				December 31, 2017	
	Insured	Non-insured	Total		Total	
Single family residential	\$ 621	\$ 1,486	\$ 2,107	9%	\$ 2,139	10%
Multi-family residential	3,957	3,517	7,474	31	6,766	30
Equity release	—	740	740	3	—	—
Commercial	306	13,571	13,877	57	13,280	60
Total	\$ 4,884	\$ 19,314	\$ 24,198	100%	\$ 22,185	100%

The total mortgage portfolio was \$24.2 billion or 14% of invested assets at September 30, 2018, up from \$22.2 billion or 13% of invested assets at December 31, 2017. Total insured loans were \$4.9 billion or 20% of the mortgage portfolio. The increase in the total mortgage portfolio 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%.

Single family residential mortgages

Region	September 30, 2018		December 31, 2017	
	\$	%	\$	%
Ontario	1,050	51%	1,054	49%
Quebec	447	22	458	22
Alberta	128	6	135	6
British Columbia	114	5	120	6
Newfoundland	108	5	112	5
Saskatchewan	91	4	94	5
Nova Scotia	63	3	63	3
New Brunswick	52	2	50	2
Manitoba	49	2	49	2
Other	5	—	4	—
Total	\$ 2,107	100%	\$ 2,139	100%

During the nine months ended September 30, 2018, single family mortgage originations, including renewals, were \$291 million, of which 29% 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 September 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 September 30, 2018, the total actuarial provision for future credit losses in insurance contract liabilities was \$2,988 million compared to \$2,891 million at December 31, 2017, an increase of \$97 million, primarily due to the acquisition of Retirement Advantage, normal business activity and rating changes, partially offset by the impact of basis changes.

The aggregate of impairment provisions of \$20 million (\$41 million at December 31, 2017) and actuarial provisions for future credit losses in insurance contract liabilities of \$2,988 million (\$2,891 million at December 31, 2017) represents 2.0% of bond and mortgage assets, including funds held by ceding insurers, at September 30, 2018 (2.0% at December 31, 2017).

United Kingdom property related exposures

At September 30, 2018, the Company's holdings of property related investments in the U.K. were \$7.5 billion (\$6.8 billion at December 31, 2017), or 4.3% of invested assets. The \$0.7 billion increase from December 31, 2017 was due to the addition of equity release mortgages through the acquisition of Retirement Advantage. These holdings remain well diversified across property type - Retail (35%), Industrial/Other (34%), Office (16%), Equity Release (10%) and Multi-family (5%). Of the Retail sector holdings, 46% relate to warehouse/distribution and other retail, 33% relate to shopping centres and department stores and 21% relate to grocery retail sub-categories.

In the third quarter of 2018, four of the Company's U.K. investment properties were impacted as certain U.K. retailers occupying the Company's properties experienced financial difficulties. For these four properties, a decline in the expected cash flows from the properties resulted in an increase in insurance contract liabilities, which negatively impacted common shareholders' net earnings by \$38 million.

DERIVATIVE FINANCIAL INSTRUMENTS

During the third 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 September 30, 2018, total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$53 million (\$77 million at December 31, 2017) and pledged on derivative liabilities was \$442 million (\$437 million at December 31, 2017).

During the nine month period ended September 30, 2018, the outstanding notional amount of derivative contracts increased by \$3.6 billion to \$20.2 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 September 30, 2018 was \$396 million, comparable to \$384 million at December 31, 2017.

LIABILITIES

Total liabilities	September 30 2018	December 31 2017
Insurance and investment contract liabilities	\$ 165,098	\$ 161,365
Other general fund liabilities	17,153	15,580
Investment and insurance contracts on account of segregated fund policyholders	220,207	217,357
Total	\$ 402,458	\$ 394,302

Total liabilities increased by \$8.2 billion to \$402.5 billion at September 30, 2018 from December 31, 2017. Insurance and investment contract liabilities increased by \$3.7 billion, primarily due to the impact of new business, the acquisition of Retirement Advantage and the strengthening of the U.S. dollar against the Canadian dollar, partially offset by the impact of fair value adjustments. Insurance and investment contracts on account of segregated fund policyholders increased by \$2.9 billion, primarily due to the impact of net market value gains and investment income of \$4.4 billion as well as the impact of currency movement of \$0.1 billion, partially offset by net withdrawals of \$1.8 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 September 30, 2018, the amount of GMWB products in force in Canada, the U.S., Ireland and Germany were \$4,333 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

	Market Value	September 30, 2018			
		Investment deficiency by benefit type			
		Income	Maturity	Death	Total ⁽¹⁾
Canada	\$ 32,530	\$ —	\$ 19	\$ 57	\$ 57
United States	13,204	18	—	32	49
Europe					
Insurance & Annuities	9,788	4	—	537	537
Reinsurance ⁽²⁾	1,111	214	—	7	221
Total Europe	10,899	218	—	544	758
Total	\$ 56,633	\$ 236	\$ 19	\$ 633	\$ 864

⁽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 September 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 September 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 \$4 million for the third quarter of 2018 (\$4 million for the third quarter of 2017) and \$12 million year-to-date (\$13 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 September 30, 2018, debentures and other debt instruments increased by \$309 million to \$5,926 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 the Company.

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 \$51 million (\$65 million pre-tax) on the interest rate hedge was 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 \$13 million (\$21 million pre-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 \$4 million (\$5 million pre-tax) to net earnings. The net of these items, \$9 million (\$16 million pre-tax) is included within the U.S. Corporate results.

SHARE CAPITAL AND SURPLUS

Share capital outstanding at September 30, 2018 was \$10,001 million, which was comprised of \$7,287 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 nine months ended September 30, 2018, the Company repurchased and subsequently cancelled 1,457,456 common shares (2017 - 780,709) under its NCIB at an average cost per share of \$33.05 (2017 - \$35.00).

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 September 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 September 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 September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Cash flows relating to the following activities:				
Operations	\$ 2,611	\$ 1,701	\$ 4,929	\$ 4,470
Financing	(475)	(467)	(1,007)	(1,403)
Investment	(1,988)	(1,462)	(3,606)	(3,151)
	<u>148</u>	<u>(228)</u>	<u>316</u>	<u>(84)</u>
Effects of changes in exchange rates on cash and cash equivalents	<u>(60)</u>	<u>(64)</u>	<u>15</u>	<u>(69)</u>
Increase (decrease) in cash and cash equivalents in the period	<u>88</u>	<u>(292)</u>	<u>331</u>	<u>(153)</u>
Cash and cash equivalents, beginning of period	<u>3,794</u>	<u>3,398</u>	<u>3,551</u>	<u>3,259</u>
Cash and cash equivalents, end of period	<u>\$ 3,882</u>	<u>\$ 3,106</u>	<u>\$ 3,882</u>	<u>\$ 3,106</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 third quarter of 2018, cash and cash equivalents increased by \$88 million from June 30, 2018. Cash flows provided by operations during the third quarter of 2018 were \$2,611 million, an increase of \$910 million compared to the third quarter of 2017. Cash flows used in financing were \$475 million, primarily used for the payment of dividends to common and preferred shareholders of \$418 million and a decrease in the line of credit of a subsidiary of \$39 million. For the three months ended September 30, 2018, cash flows were used by the Company to acquire an additional \$1,988 million of investment assets and net business acquisitions.

For the nine months ended September 30, 2018 cash and cash equivalents increased by \$331 million from December 31, 2017. Cash flows provided by operations were \$4,929 million, an increase of \$459 million compared to the same period in 2017. Cash flows used in financing were \$1,007 million, primarily used for the payment of dividends to common and preferred shareholders of \$1,254 million and a decrease in the line of a credit of subsidiary of \$159 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 nine months ended September 30, 2018, cash flows were used by the Company to acquire an additional \$3,606 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 September 30, 2018 was 134% (133% at June 30, 2018). The LICAT ratio does not take into account any impact from \$0.9 billion of liquidity at the Lifeco holding company level at September 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	Sept. 30 2018	June 30 2018
Tier 1 Capital	\$ 12,315	\$ 12,398
Tier 2 Capital	3,255	3,262
Total Available Capital	15,570	15,660
Surplus Allowance & Eligible Deposits	10,258	10,130
Total Capital Resources	\$ 25,828	\$ 25,790
Base Solvency Buffer (includes OSFI scalar 1.05)	\$ 19,322	\$ 19,429
Total Ratio (OSFI Supervisory Target = 100%)⁽¹⁾	134%	133%

⁽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 on or 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⁾	Sept. 30 2018	June 30 2018	Dec. 31 2017
Canada	20.7 %	20.9 %	17.5 %
U.S. Financial Services	17.9 %	18.2 %	17.4 %
U.S. Asset Management (Putnam)	(29.3)%	(28.7)%	(24.2)%
Europe	16.1 %	15.0 %	15.4 %
Lifeco Corporate	(2.3)%	(4.0)%	(4.3)%
Total Lifeco Net Earnings Basis	12.8 %	12.5 %	10.9 %
Return on Equity - Adjusted net earnings basis ⁽¹⁾⁽²⁾	Sept. 30 2018	June 30 2018	Dec. 31 2017
Canada ⁽³⁾	21.0 %	21.2 %	19.9 %
U.S. Financial Services ⁽⁴⁾	12.3 %	12.4 %	11.4 %
U.S. Asset Management (Putnam) ⁽⁵⁾	(1.4)%	(0.7)%	(0.9)%
Europe ⁽⁶⁾	16.2 %	14.5 %	15.0 %
Lifeco Corporate	(2.3)%	(4.0)%	(4.3)%
Total Lifeco Adjusted Net Earnings Basis⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	14.7 %	14.2 %	13.4 %

⁽¹⁾ ROE is the calculation of net earnings divided by the average common shareholders' equity over the trailing four quarters.

⁽²⁾ Adjusted ROE (a non-IFRS financial measure) is the calculation of adjusted net earnings divided by the average common shareholders' equity over the trailing four quarters.

⁽³⁾ Canada adjusted net earnings excludes \$19 million related to the impact of U.S. tax reform in the fourth quarter of 2017. The second quarter of 2017 excludes restructuring costs of \$126 million.

⁽⁴⁾ U.S. Financial Services adjusted net earnings excludes the positive impact of U.S. tax reform of \$197 million in the fourth quarter of 2017. The first quarter of 2017 excludes restructuring costs of \$11 million.

⁽⁵⁾ U.S. Asset Management (Putnam) adjusted net earnings excludes 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.

⁽⁶⁾ Europe adjusted net earnings for the third quarter of 2018 excludes restructuring costs of \$56 million related to the Insurance and Annuities business unit (\$4 million in the fourth quarter of 2017, \$1 million in the third quarter of 2017 and \$1 million in the second quarter of 2017). Adjusted net earnings for the fourth quarter of 2017 also excludes the positive impact of U.S. tax reform of \$54 million.

The Company reported ROE based on net earnings of 12.8% at September 30, 2018, up from 12.5% at June 30, 2018. Lifeco's net earnings for the second quarter of 2018 included a net positive impact of \$60 million, arising from refinancing in the U.S. segment completed in the quarter, which increased the September 30, 2018 ROE by 0.3% (June 30, 2018 ROE by 0.3%). Lifeco's net earnings for the third quarter of 2017 included a provision of \$175 million related to the impact of 2017 Atlantic hurricane activity, which reduced the June 30, 2018 and the December 31, 2017 ROE's by 0.8% and 0.9% respectively.

The Company reported ROE based on adjusted net earnings of 14.7% at September 30, 2018, up from 14.2% at June 30, 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.

RATINGS

Lifeco maintains ratings from five independent ratings companies. In the third 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 third 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 savings and income products to individual clients. Through the Group Customer business unit, the Company provides life, accidental death and dismemberment, critical illness, health and dental protection, creditor 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 nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017 ⁽¹⁾⁽³⁾	Sept. 30 2018	Sept. 30 2017 ⁽¹⁾
Premiums and deposits ⁽¹⁾	\$ 6,269	\$ 6,338	\$ 6,147	\$ 19,660	\$ 19,665
Sales	2,877	3,040	2,940	9,739	9,836
Fee and other income ⁽¹⁾	437	433	426	1,308	1,248
Net earnings	315	334	296	965	736
Adjusted net earnings ⁽²⁾	315	334	296	965	862
Total assets⁽³⁾	\$ 164,665	\$ 164,456	\$ 157,684		
Proprietary mutual funds and institutional net assets	7,216	7,155	6,513		
Total assets under management	171,881	171,611	164,197		
Other assets under administration	13,773	13,632	11,135		
Total assets under administration	\$ 185,654	\$ 185,243	\$ 175,332		

⁽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 September 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 audited consolidated financial statements.

2018 DEVELOPMENTS

- As of September 30, 2018, \$180 million of pre-tax annualized expense reductions have been achieved relating to the Canadian business transformation compared to \$170 million as of June 30, 2018. The \$180 million of pre-tax annualized expense reductions are approximately \$140 million related to the common shareholders' account and \$40 million related to the participating accounts, some of which has been reinvested in the business to support growth. 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.
- In October 2018, the Company announced Indigo Books & Music Inc. (Indigo) as the first national employer to pilot the Company's student debt savings program – the very first of its kind in Canada. Through this program, when an employee makes a payment on their Canada or provincial government student loan, Indigo will make a matching contribution to their retirement savings account within Indigo's group retirement and savings plan (up to a maximum).
- Subsequent to the third quarter of 2018, the Company announced that its subsidiary, GWL Realty Advisors U.S. (GWLRA U.S.), has entered into an agreement to acquire Guggenheim Real Estate LLC (GRE), the real estate private equity platform of Guggenheim Investments. Founded in 2001, and with offices in Boston and Charlotte, GRE will be combined with EverWest, a real estate investment management and operating company acquired by GWLRA U.S. in the first quarter of 2018. The transaction is expected to close in the fourth quarter of 2018 and is subject to customary regulatory approvals and certain closing conditions. The transaction is not expected to have a material impact on the Company's financial results.
- During the third quarter of 2018, GWL Realty Advisors ranked second in Canada and fourth globally in the diversified category in the Global Real Estate Sustainability Benchmark (GRESB) for 2018. GWL Realty Advisors earned a Green Star ranking for the fourth consecutive year and received its second consecutive GRESB '5 star' rating.
- During the third quarter of 2018, Simple Protect, a new streamlined web based application for simple term life, was launched into Freedom 55 Financial (Freedom) on a pilot basis with great success. Qualifying term policies are now being issued in a very streamlined fashion. This will be rolled out to all of Freedom and other channels in subsequent quarters.

BUSINESS UNITS - CANADA

INDIVIDUAL CUSTOMER

OPERATING RESULTS

	For the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017	Sept. 30 2018	Sept. 30 2017
Premiums and deposits	\$ 2,419	\$ 2,564	\$ 2,499	\$ 7,599	\$ 8,071
Sales	2,030	2,253	2,033	6,808	7,186
Fee and other income	253	252	236	755	694
Net earnings	165	211	141	514	427

Premiums and deposits

Premiums and deposits for the third quarter of 2018 decreased by \$0.1 billion to \$2.4 billion compared to the same quarter last year, primarily due to a decrease in individual wealth segregated fund deposits, partially offset by an increase in participating life insurance premiums.

For the nine months ended September 30, 2018, premiums and deposits decreased by \$0.5 billion to \$7.6 billion compared to the same period last year, primarily due to a decrease in individual wealth segregated fund deposits.

Premiums and deposits for the third quarter of 2018 decreased by \$0.1 billion compared to the previous quarter, primarily due to lower individual wealth proprietary mutual fund deposits.

Sales

Sales for the third quarter of 2018 of \$2.0 billion were comparable to the same quarter last year, reflecting a decrease in individual wealth segregated fund sales offset by higher individual wealth third party mutual fund and risk based sales as well as higher individual insurance participating life sales.

For the nine months ended September 30, 2018, sales decreased by \$0.4 billion to \$6.8 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 third quarter of 2018 decreased by \$0.2 billion compared to the previous quarter, primarily due to a decrease in individual wealth proprietary mutual fund and segregated fund sales.

For the individual wealth investment fund business, net cash outflows for the third quarter of 2018 were \$259 million compared to net cash inflows of \$141 million for the same quarter last year and net cash outflows of \$177 million for the previous quarter. Net cash outflows for the nine months ended September 30, 2018 were \$573 million compared to net cash inflows of \$382 million for the same period last year.

Fee and other income

Fee and other income for the third quarter of 2018 increased by \$17 million to \$253 million compared to the same quarter last year. The increase was primarily due to growth in other income related to Financial Horizons Group, which was acquired part way through the third quarter of 2017, and growth in fee income driven by higher average assets under administration, partially offset by lower margins.

For the nine months ended September 30, 2018, fee and other income increased by \$61 million to \$755 million compared to the same period last year, primarily due to the same reasons discussed in the in-quarter results.

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

Net earnings

Net earnings for the third quarter of 2018 increased by \$24 million to \$165 million compared to the same quarter last year. The increase was primarily due to higher contributions from insurance contract liability basis changes and more favourable policyholder behaviour experience. The increase was partially offset by lower contributions from investment experience and less favourable mortality experience.

For the nine months ended September 30, 2018, net earnings increased by \$87 million to \$514 million compared to the same period last year. The increase was primarily due to higher insurance contract liability basis changes and more favourable policyholder behaviour experience. The increase was partially offset by lower contributions from investment experience, less favourable impact of new business driven by lower sales and less favourable mortality experience.

Net earnings for the third quarter of 2018 decreased by \$46 million compared to the previous quarter, primarily due to lower contributions from investment experience. In addition, net earnings in the second quarter of 2018 were more favourably impacted by changes to certain income tax estimates.

For the third quarter of 2018, the net loss attributable to the participating account was \$19 million compared to net earnings of \$19 million for the same quarter last year. The decrease in net earnings was primarily due to lower contributions from insurance contract liability basis changes.

For the nine months ended September 30, 2018, the net loss attributable to the participating account was \$2 million compared to net earnings of \$17 million for the same period last year. Included in the 2017 year-to-date results were \$32 million of restructuring costs related to the Canadian business transformation. Excluding these items, net earnings decreased by \$51 million, primarily due to lower contributions from insurance contract liability basis changes and the less favourable impact of new business.

For the third quarter of 2018, net earnings attributable to the participating account decreased by \$36 million compared to the previous quarter. The decrease is primarily due to lower contributions from insurance contract liability basis changes. In addition, net earnings in the second quarter of 2018 were more favourably impacted by changes to certain income tax estimates.

GROUP CUSTOMER

OPERATING RESULTS

	For the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017 ⁽¹⁾	Sept. 30 2018	Sept. 30 2017 ⁽¹⁾
Premiums and deposits ⁽¹⁾	\$ 3,850	\$ 3,774	\$ 3,648	\$ 12,061	\$ 11,594
Sales	847	787	907	2,931	2,650
Fee and other income ⁽¹⁾	173	170	161	513	486
Net earnings	150	194	155	486	448

⁽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 September 30, 2018.

Premiums and deposits

Premiums and deposits for the third quarter of 2018 increased by \$0.2 billion to \$3.9 billion compared to the same quarter last year, due to an increase in group insurance premiums and deposits of \$0.1 billion and an increase in group wealth premiums and deposits of \$0.1 billion. The increase in group insurance was primarily due to higher administrative services only (ASO) premiums and deposits, while the increase in group wealth was primarily due to higher segregated fund deposits, partially offset by lower risk based premiums.

For the nine months ended September 30, 2018, premiums and deposits increased by \$0.5 billion to \$12.1 billion compared to the same period last year. Group wealth premiums and deposits increased \$0.3 billion and group insurance premiums and deposits increased \$0.2 billion primarily due to the same reasons discussed for the in-quarter results.

Premiums and deposits for the third quarter of 2018 increased by \$0.1 billion compared to the previous quarter, primarily due to an increase in the group wealth risk based premiums.

Sales

Sales for the third quarter of 2018 of \$0.8 billion were comparable to the same quarter last year.

For the nine months ended September 30, 2018, sales increased by \$0.3 billion to \$2.9 billion compared to the same period last year, primarily due to an increase in group insurance sales of \$0.3 billion, driven by higher sales in the large case and small case markets.

Sales for the third quarter of 2018 increased by \$0.1 billion compared to the previous quarter, reflecting an increase in group wealth sales of \$0.2 billion and a decrease in group insurance sales of \$0.1 billion. The increase in group wealth sales was due to higher sales across all product lines, while group insurance sales decreased primarily due to lower large case and creditor market sales.

For the group wealth segregated fund business, net cash outflows for the third quarter of 2018 were \$69 million, compared to net cash inflows of \$72 million for the same quarter last year and net cash outflows of \$9 million for the previous quarter. For the nine months ended September 30, 2018, net cash inflows were \$23 million compared to net cash inflows of \$566 million for the same period last year.

Fee and other income

Fee and other income for the third quarter of 2018 increased by \$12 million to \$173 million compared to the same quarter last year, primarily due to an increase in higher average assets under administration driven by higher average equity market levels.

Fee and other income for the nine months ended September 30, 2018 increased by \$27 million to \$513 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 third quarter of 2018 increased by \$3 million compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

Net earnings

Net earnings for the third quarter of 2018 decreased by \$5 million to \$150 million compared to the same quarter last year, primarily due to lower contributions from insurance contract liability basis changes and lower contributions from investment experience, partially offset by favourable morbidity experience.

For the nine months ended September 30, 2018, net earnings increased by \$38 million to \$486 million compared to the same period last year, primarily due to more favourable morbidity experience, partially offset by lower contributions from investment experience.

Net earnings for the third quarter of 2018 decreased by \$44 million compared to the previous quarter. The decrease was primarily due to lower contributions from insurance contract liability basis changes, less favourable morbidity experience and lower contributions from investment experience. In addition, net earnings in the second quarter of 2018 were more favourably impacted by 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 third quarter of 2018, net earnings of nil were comparable to the same quarter last year, as lower operating expenses were offset by lower net fee income. Fee income in the third quarter of 2017 included a fee related to the transition of assets from GWL Realty Advisors to bcIMC.

The net loss for the nine months ended September 30, 2018 was \$35 million compared to a net loss of \$139 million for the same period last year. Included in the 2017 year-to-date results were restructuring costs of \$126 million related to the Canada business transformation. Excluding these costs, the net loss increased by \$22 million primarily due to the less favourable impact of changes to certain income tax estimates and lower net fee income, as described for the in-quarter results, partially offset by higher mark-to-market gains on real estate properties.

In the third quarter of 2018, net earnings were nil compared to a net loss of \$71 million in the previous quarter, primarily due to lower income taxes and lower expenses. The second quarter of 2018 included the less favourable impact of changes to certain income tax estimates.

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 nine months ended	
	Sept. 30 2018	June 30 2018 ⁽²⁾	Sept. 30 2017 ⁽¹⁾⁽⁴⁾	Sept. 30 2018 ⁽²⁾	Sept. 30 2017 ⁽¹⁾⁽³⁾
Premiums and deposits	\$ 17,358	\$ 18,184	\$ 13,544	\$ 51,887	\$ 44,299
Sales	24,284	24,508	21,173	73,868	62,459
Fee and other income ⁽¹⁾	673	655	626	1,959	1,903
Net earnings - common shareholders	113	145	110	333	248
Net earnings (US\$) - common shareholders ⁽²⁾	87	105	88	251	192
Adjusted net earnings - common shareholders ⁽³⁾	113	145	110	333	259
Adjusted net earnings - common shareholders (US\$) ⁽²⁾⁽³⁾	87	105	88	251	200
Total assets⁽⁴⁾	\$ 83,888	\$ 85,203	\$ 83,489		
Proprietary mutual funds and institutional net assets	246,151	243,506	225,481		
Total assets under management	330,039	328,709	308,970		
Other assets under administration	659,602	642,276	567,984		
Total assets under administration	\$ 989,641	\$ 970,985	\$ 876,954		

⁽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 September 30, 2018.

⁽²⁾ Net earnings (US\$) - common shareholders and Adjusted net earnings - common shareholders (US\$) in the second quarter of 2018 did not include \$9 million of net foreign currency exchange gains as they did not have a US\$ equivalent. These amounts were 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 audited consolidated financial statements.

2018 DEVELOPMENTS

- On April 18, 2018, the Securities and Exchange Commission ("SEC") released its proposal on the best interest standards applicable to brokers and advisors. The Company provided comments to the SEC in August 2018. 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 totalling US\$800 million and redeemed two tranches of debentures totalling US\$699 million. As a result of the financing activity, Canadian dollar net earnings of the Company included foreign exchange net gains of \$9 million. The Company also recognized a gain of \$51 million (US\$39 million) 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 8.7 million at September 30, 2018 from 8.3 million at December 31, 2017.
- Empower Retirement assets under administration grew to US\$566 billion at September 30, 2018, up from US\$530 billion at December 31, 2017.

OPERATING RESULTS

	For the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017 ⁽²⁾	Sept. 30 2018	Sept. 30 2017 ⁽²⁾
Premiums and deposits	\$ 3,230	\$ 3,182	\$ 3,140	\$ 9,522	\$ 9,816
Sales ⁽¹⁾	10,156	9,506	10,769	31,503	27,976
Fee and other income ⁽²⁾	371	360	324	1,072	1,005
Net earnings	121	101	104	313	277
Premiums and deposits (US\$)	\$ 2,465	\$ 2,467	\$ 2,513	\$ 7,400	\$ 7,536
Sales (US\$) ⁽¹⁾	7,753	7,369	8,615	24,520	21,574
Fee and other income (US\$) ⁽²⁾	283	280	259	833	771
Net earnings (US\$)	93	78	83	243	213

⁽¹⁾ For the three and nine months ended September 30, 2018, sales included US\$0.3 billion and US\$0.8 billion, respectively, relating to Putnam managed funds sold on the Empower Retirement platform (US\$0.5 billion and US\$1.4 billion for the three and nine months ended September 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 September 30, 2018.

Premiums and deposits

Premiums and deposits for the third quarter of 2018 of US\$2.5 billion were comparable to the same quarter last year and to the previous quarter.

For the nine months ended September 30, 2018, premiums and deposits decreased by US\$0.1 billion to US\$7.4 billion compared to the same period last year. Lower sales in the executive benefits and retail bank insurance lines of business for Individual Markets as well as lower deposits from existing Empower Retirement participants were mostly offset by higher sales in the annuity line of business for Individual Markets.

Sales

Sales in the third quarter of 2018 decreased by US\$0.9 billion to US\$7.8 billion compared to the same quarter last year, primarily due to a decrease in Empower Retirement sales driven by lower large plan sales. Large plan sales can be highly variable from period to period and tend to be lower margin.

For the nine months ended September 30, 2018, sales increased by US\$2.9 billion to US\$24.5 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, partially offset by lower large plan sales.

Sales in the third quarter of 2018 increased by US\$0.4 billion compared to the previous quarter, primarily due to an increase in Empower Retirement sales driven by higher small and mid-sized plan sales, partially offset by lower 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 third quarter of 2018 increased by US\$24 million to US\$283 million compared to the same quarter last year, primarily due to higher average equity market levels and growth in participants.

For the nine months ended September 30, 2018, fee and other income increased by US\$62 million to US\$833 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 third quarter of 2018 increased by US\$3 million to US\$283 million compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

Net earnings

Net earnings for the third quarter of 2018 increased by US\$10 million to US\$93 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\$12 million, higher contributions from insurance contract liability basis changes and net business growth. The increase was partially offset by less favourable mortality and higher operating expenses. Operating expenses in the third quarter of 2017 included a one-time expense recovery related to a change in future obligations for an employee pension plan.

For the nine months ended September 30, 2018, net earnings increased by US\$30 million to US\$243 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\$39 million, higher contributions from insurance contract liability basis changes and net business growth. The increase was partially offset by lower contributions from investment experience, higher operating expenses and less favourable mortality experience.

Net earnings for the third quarter of 2018 increased by US\$15 million compared to the previous quarter, primarily due to higher contributions from insurance contract liability basis changes, partially offset by higher operating expenses.

ASSET MANAGEMENT

2018 DEVELOPMENTS

- Putnam's ending assets under management (AUM) at September 30, 2018 of US\$177.2 billion increased by US\$9.4 billion compared to the same period last year, while average AUM for the nine months ended September 30, 2018 of US\$173.9 billion increased by US\$12.4 billion compared to the same period last year. Putnam's ending AUM increased by US\$5.7 billion compared to December 31, 2017.
- Putnam's net asset inflows for the three months ended September 30, 2018 were US\$1.2 billion. Included in net asset inflows for the three months ended September 30, 2018 were mutual fund net inflows of US\$1.7 billion, which increased by US\$1.0 billion compared to the prior quarter and were the highest since the second quarter of 2014.
- Putnam continues to sustain strong investment performance relative to its peers. As of September 30, 2018, approximately 82%, 85% and 82% of Putnam's fund assets performed at levels above the Lipper median on a one-year, three-year and five-year basis, respectively. Additionally, approximately 57% of Putnam's fund assets performed at levels in the Lipper top quartile on a five-year basis.

OPERATING RESULTS

	For the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017 ⁽¹⁾	Sept. 30 2018	Sept. 30 2017 ⁽¹⁾
Sales	\$ 14,128	\$ 15,002	\$ 10,404	\$ 42,365	\$ 34,483
Fee income					
Investment management fees ⁽¹⁾	212	207	198	622	604
Performance fees	(9)	(10)	5	(30)	(13)
Service fees	38	37	36	111	113
Underwriting & distribution fees ⁽¹⁾	61	61	63	184	194
Fee income ⁽¹⁾	302	295	302	887	898
Core net earnings (loss) ⁽²⁾	4	6	19	7	26
Less: Financing and other expenses (after-tax) ⁽²⁾	(12)	(14)	(13)	(39)	(42)
Reported net earnings (loss)	(8)	(8)	6	(32)	(16)
Sales (US\$)	\$ 10,785	\$ 11,630	\$ 8,323	\$ 32,919	\$ 26,451
Fee income (US\$)					
Investment management fees (US\$) ⁽¹⁾	162	160	158	483	463
Performance fees (US\$)	(7)	(8)	4	(24)	(10)
Service fees (US\$)	29	29	28	87	86
Underwriting & distribution fees (US\$) ⁽¹⁾	47	47	50	143	150
Fee income (US\$) ⁽¹⁾	231	228	240	689	689
Core net earnings (loss) (US\$) ⁽²⁾	3	5	15	6	21
Less: Financing and other expenses (after-tax) (US\$) ⁽²⁾	(9)	(11)	(10)	(31)	(32)
Reported net earnings (loss) (US\$)	(6)	(6)	5	(25)	(11)
Pre-tax operating margin ⁽¹⁾⁽³⁾	2.0%	2.2%	9.9%	1.2%	5.2%
Average assets under management (US\$)	\$ 175,223	\$ 172,824	\$ 165,180	\$ 173,865	\$ 161,497

⁽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 September 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 third quarter of 2018 increased by US\$2.5 billion to US\$10.8 billion compared to the same quarter last year, primarily due to a US\$2.9 billion increase in mutual fund sales, partially offset by a US\$0.4 billion decrease in institutional sales.

For the nine months ended September 30, 2018, sales increased by US\$6.5 billion to US\$32.9 billion compared to the same period last year, primarily due to an increase in mutual fund sales of US\$6.2 billion and an increase in institutional sales of US\$0.3 billion.

Sales in the third quarter of 2018 decreased by US\$0.8 billion compared to the previous quarter, primarily due to a US\$1.6 billion decrease in institutional sales, partially offset by a US\$0.8 billion increase in mutual fund sales.

Fee income

Fee income is derived primarily from investment management fees, performance fees, transfer agency and other service fees, as well as underwriting and distribution fees. Generally, fees are earned based on AUM and may depend on financial markets, the relative performance of Putnam's investment products, the number of retail accounts and sales. 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 third quarter of 2018 decreased by US\$9 million to US\$231 million compared to the same quarter last year. Fee income for the third quarter of 2017 included US\$12 million related to proceeds earned from the sale of a previously impaired investment product. Excluding this item, fee income increased by US\$3 million primarily due to higher investment management fees driven by higher average AUM, partially offset by lower underwriting and distribution fees earned on the sale of certain mutual fund share classes.

For the nine months ended September 30, 2018, fee income of US\$689 million was comparable to the same period last year. Excluding the prior year impact of the sale of an investment product discussed for the in-quarter results, fee income increased by US\$12 million primarily due to the same reasons discussed for the in-quarter results.

Fee income for the third quarter of 2018 increased by US\$3 million compared to the previous quarter, primarily due to higher investment management fees driven by higher average AUM.

Net earnings

Core net earnings (a non-IFRS financial measure) for the third quarter of 2018 were US\$3 million compared to core net earnings of US\$15 million for the same quarter last year. Core net earnings for the third quarter of 2017 included US\$7 million related to the sale of a previously impaired investment product. Excluding this item, core net earnings decreased by US\$5 million primarily due to lower net investment income, partially offset by higher fee income driven by higher average AUM, lower expenses and lower income taxes, driven by the impact of a reduction in the U.S. corporate tax rate. In the third quarter of 2018, the reported net loss, including financing and other expenses, was US\$6 million compared to reported net earnings of US\$5 million for the same quarter last year. Financing and other expenses for the third quarter of 2018 decreased by US\$1 million to US\$9 million compared to the same quarter last year, as lower financing costs were mostly offset by the impact of the reduction in the U.S. corporate tax rate.

For the nine months ended September 30, 2018, core net earnings were US\$6 million compared to core net earnings of US\$21 million for the same period last year. Excluding the impact of the sale of an investment product discussed for the in-quarter results, core net earnings decreased US\$8 million primarily due to lower net investment income, partially offset by lower income taxes, driven by the impact of a reduction in the U.S. corporate tax rate. The reported net loss, including financing and other expenses, for the nine months ended September 30, 2018 was US\$25 million compared to US\$11 million for the same period last year. Financing and other expenses for the nine month period ended September 30, 2018 decreased by US\$1 million to US\$31 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Core net earnings for the third quarter of 2018 were US\$3 million compared to core net earnings of US\$5 million for the previous quarter. The decrease in core net earnings was primarily due to lower net investment income, partially offset by higher fee income driven by higher average AUM. The reported net loss, including financing and other expenses, for the third quarter of 2018 of US\$6 million was comparable to the previous quarter. Financing and other expenses for the third quarter of 2018 decreased by US\$2 million to US\$9 million compared to the previous quarter, primarily due to lower net financing costs.

ASSETS UNDER MANAGEMENT

Assets under management (\$US)	For the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017	Sept. 30 2018	Sept. 30 2017
Beginning assets	\$ 172,445	\$ 169,468	\$ 162,913	\$ 171,458	\$ 152,122
Sales - Mutual funds	7,242	6,479	4,404	20,637	14,484
Redemptions - Mutual funds	(5,580)	(5,857)	(4,625)	(18,695)	(15,857)
Net asset flows - Mutual funds	1,662	622	(221)	1,942	(1,373)
Sales - Institutional	3,543	5,151	3,919	12,282	11,967
Redemptions - Institutional	(3,995)	(4,211)	(3,601)	(12,657)	(10,077)
Net asset flows - Institutional	(452)	940	318	(375)	1,890
Net asset flows - Total	1,210	1,562	97	1,567	517
Impact of market/performance	3,544	1,415	4,788	4,174	15,159
Ending assets	\$ 177,199	\$ 172,445	\$ 167,798	\$ 177,199	\$ 167,798
<u>Average assets under management</u>					
Mutual funds	81,657	78,854	75,900	79,975	74,802
Institutional assets	93,566	93,970	89,280	93,890	86,695
Total average assets under management	\$ 175,223	\$ 172,824	\$ 165,180	\$ 173,865	\$ 161,497

Average AUM for the three months ended September 30, 2018 were US\$175.2 billion, an increase of US\$10.0 billion or 6% compared to the same quarter last year, primarily due to the cumulative impact of positive markets and mutual fund net asset inflows over the twelve month period. Net asset inflows for the third quarter of 2018 increased by US\$1.1 billion to US\$1.2 billion compared to the same quarter last year. In-quarter mutual fund net asset inflows were US\$1.7 billion and institutional net asset outflows were US\$0.5 billion.

Average AUM for the nine months ended September 30, 2018 increased by US\$12.4 billion to US\$173.9 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results. Net asset inflows for the nine months ended September 30, 2018 increased by US\$1.1 billion to US\$1.6 billion compared to the same period last year. Year-to-date mutual fund net asset inflows of almost US\$2.0 billion were partially offset by institutional net asset outflows of US\$0.4 billion.

Average AUM for the three months ended September 30, 2018 increased by US\$2.4 billion compared to the previous quarter, primarily due to the impact of positive markets in the quarter and mutual fund 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 third quarter of 2018, net earnings of nil were comparable to the same quarter last year.

For the nine months ended September 30, 2018, net earnings increased by US\$43 million to US\$33 million compared to the same period in 2017, 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 in 2018. Results for the first nine 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 third quarter of 2018, net earnings were nil compared to net earnings of US\$33 million in the previous quarter. Net earnings for the second quarter of 2018 included a gain on terminating an interest rate hedge as part of a debt refinancing transaction and a provision for an ongoing legal matter.

The year-to-date 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 nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017 ⁽²⁾	Sept. 30 2018	Sept. 30 2017
Premiums and deposits	\$ 10,955	\$ 9,449	\$ 8,820	\$ 30,132	\$ 26,495
Fee and other income	373	395	348	1,132	1,018
Net earnings - common shareholders	263	355	184	962	794
Adjusted net earnings - common shareholders ⁽¹⁾	319	355	185	1,018	813
Total assets⁽²⁾	\$ 180,529	\$ 181,036	\$ 165,595		
Proprietary mutual funds and institutional net assets	40,399	44,229	37,000		
Total assets under management	220,928	225,265	202,595		
Other assets under administration	45,035	41,772	39,413		
Total assets under administration⁽³⁾	\$ 265,963	\$ 267,037	\$ 242,008		

⁽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 audited consolidated financial statements.

⁽³⁾ At September 30, 2018, total assets under administration excludes \$8.4 billion of assets managed for other business units within the Lifeco group of companies (\$8.5 billion at June 30, 2018 and \$7.9 billion at September 30, 2017).

2018 DEVELOPMENTS

- During the third quarter of 2018, the Company commenced certain restructuring initiatives in its U.K. operations relating to the integration of Retirement Advantage, which was acquired in the first quarter of 2018, as well as the pending sale of a heritage block of policies to Scottish Friendly, announced during the second quarter of 2018. For the three months ended September 30, 2018, the Company recorded a provision for restructuring costs relating to these initiatives that reduced net earnings by \$56 million, including the costs of decommissioning the Company's existing policy administration system and migrating policies to the existing Retirement Advantage policy administrative system, employee severance payments, fees related to exiting third party contracts, and legal and other fees associated with the business transfers. These restructuring costs are included in the Europe Corporate results. The integration of Retirement Advantage and the sale of the heritage block of policies are subject to various regulatory and court approvals and are expected to occur in the second half of 2019.

In addition to the restructuring costs recorded in the period, as part of the transformation program, the Company intends to invest in additional system functionality and digital capacities and expand the range of products offered in the U.K. In addition to the strategic benefits, the Company expects to realize total annualized expense savings of £20 million pre-tax by the end of the fourth quarter of 2020 from various sources including system exit costs and a reduction in headcount.

- On August 1, 2018, Irish Life Group Limited, a subsidiary of the Company, completed the previously-announced acquisition of 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. Invesco has almost 55,000 members in corporate pension schemes and €5.6 billion in assets under administration, €2.7 billion of which is already managed through Irish Life Investment Managers (as of September 30, 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.
- The Company completed four significant bulk annuity deals in the third quarter of 2018, with total premiums exceeding £1.3 billion, signifying the Company's strong presence in the bulk annuity market.
- Some market volatility continues as exit negotiations between the U.K. and the European Union (EU) have yet to reach an agreed conclusion. The Company's U.K. and other European businesses are executing plans that will address and minimize the impact under several different outcomes, including where the U.K. has no exit agreements with the EU. While there are some impacts from market uncertainty, the impacts are not expected to have a material impact on the Company's financial results.
- During the third quarter of 2018, A.M. Best Company upgraded the Financial Strength rating to A+ from A of London Life Reinsurance Company, Canada Life International Re (CLI Re) Designated Activity Company (Ireland) and London Life and Casualty (Barbados) Corporation, subsidiaries of the Company. This reflects A.M. Best Company's view of the increased strategic importance of the reinsurance entities to the Company's current and future operations.
- During the third quarter of 2018, at the Investment Life & Pensions Moneyfacts Awards 2018, Canada Life U.K. won the Best Annuity Provider, the Best Equity Release Provider along with the Innovation award (Over 55 Buy-to-Let Options).

BUSINESS UNITS – EUROPE

INSURANCE & ANNUITIES

OPERATING RESULTS

	For the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017	Sept. 30 2018	Sept. 30 2017
Premiums and deposits ⁽¹⁾	\$ 7,848	\$ 6,240	\$ 5,983	\$ 20,500	\$ 16,761
Sales ⁽¹⁾	7,235	5,535	5,362	18,509	14,613
Fee and other income	370	392	344	1,122	1,005
Net earnings	240	281	233	765	697

⁽¹⁾ For the three and nine months ended September 30, 2018, premiums and deposits and sales exclude \$0.2 billion and \$0.8 billion respectively of assets managed for other business units within the Lifeco group of companies (\$0.2 billion and \$0.7 billion for the three and nine months ended September 30, 2017 and \$0.2 billion for the three months ended June 30, 2018).

Premiums and deposits

Premiums and deposits for the third quarter of 2018 increased by \$1.9 billion to \$7.8 billion compared to the same quarter last year, primarily due to higher bulk annuity sales in the U.K. and the impact of currency movement. These items were partially offset by lower pension sales in Ireland.

For the nine months ended September 30, 2018, premiums and deposits increased by \$3.7 billion to \$20.5 billion compared to the same period last year, primarily due to higher bulk annuity sales in the U.K., higher fund management sales in Ireland and the impact of currency movement. These items were partially offset by lower pension sales in Ireland.

Premiums and deposits for the third quarter of 2018 increased by \$1.6 billion compared to the previous quarter, primarily due to higher bulk annuity sales in the U.K., partially offset by lower fund management sales in Ireland and the impact of currency movement.

Sales

Sales for the third quarter of 2018 increased by \$1.9 billion to \$7.2 billion compared to the same quarter last year, primarily due to higher bulk annuity sales in the U.K. and the impact of currency movement. These items were partially offset by lower pension sales in Ireland.

For the nine months ended September 30, 2018, sales increased by \$3.9 billion to \$18.5 billion compared to the same period last year, primarily due to higher bulk annuity sales in the U.K., higher equity release mortgage sales related to Retirement Advantage, which was acquired in the first quarter of 2018, higher fund management sales in Ireland and the impact of currency movement. These items were partially offset by lower pension sales in Ireland.

Sales for the third quarter of 2018 increased by \$1.7 billion compared to the previous quarter, primarily due to higher bulk annuity sales in the U.K., partially offset by lower fund management sales in Ireland and the impact of currency movement.

Fee and other income

Fee and other income for the third quarter of 2018 increased by \$26 million to \$370 million compared to the same quarter last year, primarily due to higher asset management fees in Germany and higher other income, including income from Invesco which was acquired during the third quarter of 2018, as well as the impact of currency movement.

For the nine months ended September 30, 2018, fee and other income increased by \$117 million to \$1,122 million compared to the same period last year. The increase was primarily due to higher asset management fees in Ireland and Germany and higher other income in Ireland, which can be highly variable from quarter to quarter, as well as the impact of currency movement.

Fee and other income for the third quarter of 2018 decreased by \$22 million compared to the previous quarter, primarily due to lower asset management fees and other income in Ireland.

Net earnings

Net earnings for the third quarter of 2018 increased by \$7 million to \$240 million compared to the same quarter last year, primarily due to the impact of higher new business volumes in payout annuities and more favourable morbidity experience, partially offset by lower contributions from investment experience primarily driven by mortgage downgrades and reductions in expected property cash flows associated with certain U.K. retail holdings.

Net earnings for the nine months ended September 30, 2018 increased by \$68 million to \$765 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 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 third quarter of 2018 decreased by \$41 million compared to the previous quarter, primarily due to lower contributions from investment experience and less favourable mortality experience. These items were partially offset by the impact of higher new business volumes in payout annuities, more favourable morbidity experience and more favourable impacts of changes to certain income tax estimates.

REINSURANCE

OPERATING RESULTS

	For the three months ended			For the nine months ended	
	Sept. 30 2018	June 30 2018	Sept. 30 2017	Sept. 30 2018	Sept. 30 2017
Premiums and deposits	\$ 3,107	\$ 3,209	\$ 2,837	\$ 9,632	\$ 9,734
Fee and other income	3	3	4	10	13
Net earnings	87	97	(41)	288	123

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 third quarter of 2018 increased from \$2.8 billion to \$3.1 billion compared to the same quarter last year, primarily due to new reinsurance agreements, higher volumes relating to existing business and the impact of currency movement.

For the nine months ended September 30, 2018, premiums and deposits decreased by \$0.1 billion to \$9.6 billion compared to the same period last year, primarily due to the impact of currency movement.

Premiums and deposits for the third 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 third quarter of 2018 of \$3 million was comparable to the same period last year and to the previous quarter.

For the nine months ended September 30, 2018, fee and other income decreased by \$3 million to \$10 million compared to the same period last year, primarily due to restructured reinsurance agreements.

Net earnings

Net earnings for the third quarter of 2018 increased by \$128 million to \$87 million compared to the same quarter last year. Included in the third quarter of 2017 results was a provision of \$175 million related to the impact of 2017 Atlantic hurricane activity. Excluding this item, net earnings decreased by \$47 million. The decrease was primarily due to lower impacts from new business gains, partially offset by higher contributions from insurance contract liability basis changes. In addition, net earnings in the third quarter of 2017 were more favourably impacted by changes to certain income tax estimates.

For the nine months ended September 30, 2018, net earnings increased by \$165 million to \$288 million compared to the same period last year. Excluding the prior year provision discussed for the in-quarter results, net earnings decreased by \$10 million, primarily due to the same reasons discussed for the in-quarter results.

Net earnings for the third quarter of 2018 decreased by \$10 million compared to the previous quarter, primarily due to lower contributions from insurance contract liability basis changes.

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 third quarter of 2018, Europe Corporate had a net loss of \$64 million compared to a net loss of \$8 million for the same quarter last year. Included in the third quarter 2018 results were restructuring costs of \$56 million related to the U.K. operations compared to \$1 million in the third quarter of 2017 related to the Irish Life retail business.

For the nine months ended September 30, 2018, Europe Corporate had a net loss of \$91 million compared to a net loss of \$26 million for the same period last year, primarily due to higher restructuring costs, higher corporate expenses and the less favourable impact of changes in certain income tax estimates. Included in the 2018 year-to-date results were \$56 million of restructuring costs as discussed for the in-quarter results, compared to \$19 million for the same period last year relating to Irish Life Health and the Irish Life retail businesses.

Excluding the impact of restructuring costs discussed for the in-quarter results, the adjusted net loss for the three months ended September 30, 2018 was \$8 million compared to a net loss of \$23 million for the previous quarter. Net earnings in the second quarter of 2018 were less favourably impacted by changes to 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 September 30, 2018 of \$2 million compared to a net loss of \$9 million for the same period last year, primarily due to the allocation of preferred share dividends issued in the second quarter of 2017. In 2018, preferred share dividends related to preferred shares issued in the second quarter of 2017 were allocated to the Canada segment.

For the nine months ended September 30, 2018, Lifeco Corporate had a net loss of \$9 million, a decrease from a net loss of \$21 million for the same period last year, primarily due to the same reasons discussed for the in-quarter results.

The net loss for the three months ended September 30, 2018 of \$2 million decreased by \$1 million compared to the previous quarter, primarily due to higher net investment income.

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 risk and potential losses. 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 third 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 whereas fee income on other contracts is in scope.

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 September 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 nine month period ended September 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	Total revenue⁽¹⁾⁽²⁾	\$ 12,027	\$ 10,613	\$ 9,693	\$ 12,912	\$ 10,222	\$ 11,077	\$ 12,906
Common shareholders								
Net earnings								
Total	\$ 689	\$ 831	\$ 731	\$ 392	\$ 581	\$ 585	\$ 591	\$ 676
Basic - per share ⁽³⁾	0.697	0.839	0.740	0.397	0.587	0.591	0.598	0.686
Diluted - per share ⁽³⁾	0.697	0.839	0.739	0.396	0.587	0.590	0.597	0.685
Adjusted net earnings⁽⁴⁾								
Total	\$ 745	\$ 831	\$ 731	\$ 734	\$ 582	\$ 712	\$ 619	\$ 698
Basic - per share ⁽³⁾	0.754	0.839	0.740	0.742	0.589	0.719	0.627	0.709
Diluted - per share ⁽³⁾	0.753	0.839	0.739	0.741	0.588	0.718	0.625	0.707

(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 September 30, 2018.

(3) Year-to-date earnings per share (EPS) is calculated based on year-to date net earnings and share information. As a result, there may be immaterial differences between the sum of quarterly EPS figures and reported year-to-date EPS.

(4) 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Restructuring costs	\$ 56	\$ —	\$ —	\$ 4	\$ 1	\$ 127	\$ 28	\$ 22
Net charge on sale of equity investment	—	—	—	122	—	—	—	—
U.S. tax reform impact	—	—	—	216	—	—	—	—
Total Adjustments	\$ 56	\$ —	\$ —	\$ 342	\$ 1	\$ 127	\$ 28	\$ 22

Lifeco's consolidated net earnings attributable to common shareholders were \$689 million for the third quarter of 2018 compared to \$581 million reported a year ago. On a per share basis, this represents \$0.697 per common share (\$0.697 diluted) for the third quarter of 2018 compared to \$0.587 per common share (\$0.587 diluted) a year ago.

Total revenue for the third quarter of 2018 was \$12,027 million and comprises premium income of \$10,337 million, regular net investment income of \$1,578 million, a negative change in fair value through profit or loss on investment assets of \$1,371 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	Sept. 30 2018	June 30 2018	Mar. 31 2018	Dec. 31 2017	Sept. 30 2017	June 30 2017	Mar. 31 2017
United States dollar							
Balance sheet	\$ 1.29	\$ 1.31	\$ 1.29	\$ 1.26	\$ 1.25	\$ 1.30	\$ 1.33
Income and expenses	\$ 1.31	\$ 1.29	\$ 1.26	\$ 1.27	\$ 1.25	\$ 1.34	\$ 1.32
British pound							
Balance sheet	\$ 1.69	\$ 1.73	\$ 1.81	\$ 1.70	\$ 1.67	\$ 1.69	\$ 1.67
Income and expenses	\$ 1.70	\$ 1.76	\$ 1.76	\$ 1.69	\$ 1.64	\$ 1.72	\$ 1.64
Euro							
Balance sheet	\$ 1.50	\$ 1.53	\$ 1.59	\$ 1.51	\$ 1.47	\$ 1.48	\$ 1.42
Income and expenses	\$ 1.52	\$ 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.