

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

	For the three months ended			For the nine months ended	
	September 30 2018	June 30 2018	September 30 2017 (note 2)	September 30 2018	September 30 2017 (note 2)
Income					
Premium income					
Gross premiums written	\$ 11,408	\$ 9,012	\$ 9,335	\$ 29,713	\$ 28,589
Ceded premiums	(1,071)	(1,107)	(1,042)	(3,297)	(3,181)
Total net premiums	<u>10,337</u>	<u>7,905</u>	<u>8,293</u>	<u>26,416</u>	<u>25,408</u>
Net investment income (note 5)					
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
Total net investment income	<u>207</u>	<u>1,225</u>	<u>529</u>	<u>1,518</u>	<u>4,628</u>
Fee and other income	1,483	1,483	1,400	4,399	4,169
	<u>12,027</u>	<u>10,613</u>	<u>10,222</u>	<u>32,333</u>	<u>34,205</u>
Benefits and expenses					
Policyholder benefits					
Gross	7,882	7,742	7,051	23,620	23,061
Ceded	(625)	(596)	(548)	(1,846)	(1,658)
Total net policyholder benefits	<u>7,257</u>	<u>7,146</u>	<u>6,503</u>	<u>21,774</u>	<u>21,403</u>
Policyholder dividends and experience refunds	396	442	346	1,296	1,366
Changes in insurance and investment contract liabilities	1,393	(32)	718	312	2,887
Total paid or credited to policyholders	<u>9,046</u>	<u>7,556</u>	<u>7,567</u>	<u>23,382</u>	<u>25,656</u>
Commissions	611	596	579	1,801	2,001
Operating and administrative expenses	1,244	1,241	1,109	3,722	3,468
Premium taxes	122	124	118	367	348
Financing charges	69	11	71	151	226
Amortization of finite life intangible assets	54	50	47	153	139
Restructuring expenses (note 4)	67	—	1	67	254
Earnings before income taxes	<u>814</u>	<u>1,035</u>	<u>730</u>	<u>2,690</u>	<u>2,113</u>
Income taxes (note 15)	107	153	93	337	240
Net earnings before non-controlling interests	<u>707</u>	<u>882</u>	<u>637</u>	<u>2,353</u>	<u>1,873</u>
Attributable to non-controlling interests	(16)	18	21	2	20
Net earnings	<u>723</u>	<u>864</u>	<u>616</u>	<u>2,351</u>	<u>1,853</u>
Preferred share dividends (note 12)	34	33	35	100	96
Net earnings - common shareholders	<u>\$ 689</u>	<u>\$ 831</u>	<u>\$ 581</u>	<u>\$ 2,251</u>	<u>\$ 1,757</u>
Earnings per common share (note 12)					
Basic	\$ 0.697	\$ 0.839	\$ 0.587	\$ 2.277	\$ 1.776
Diluted	<u>\$ 0.697</u>	<u>\$ 0.839</u>	<u>\$ 0.587</u>	<u>\$ 2.275</u>	<u>\$ 1.773</u>

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

	For the three months ended			For the nine months ended	
	September 30	June 30	September 30	September 30	September 30
	2018	2018	2017	2018	2017
Net earnings	\$ 723	\$ 864	\$ 616	\$ 2,351	\$ 1,853
Other comprehensive income (loss)					
Items that may be reclassified subsequently to Consolidated Statements of Earnings					
Unrealized foreign exchange gains (losses) on translation of foreign operations	(334)	(339)	(359)	82	(746)
Unrealized foreign exchange gains (losses) on euro debt designated as hedges of the net investment in foreign operations	30	60	10	10	(50)
Income tax (expense) benefit	(4)	(8)	(1)	(1)	7
Unrealized gains (losses) on available-for-sale assets	(58)	(15)	(44)	(160)	(55)
Income tax (expense) benefit	11	5	11	31	10
Realized (gains) losses on available-for-sale assets	2	4	2	7	(18)
Income tax expense (benefit)	—	(1)	(1)	(1)	3
Unrealized gains (losses) on cash flow hedges	—	(3)	10	23	6
Income tax (expense) benefit	—	1	(3)	(4)	(2)
Realized (gains) losses on cash flow hedges	—	(81)	(9)	(69)	402
Income tax expense (benefit)	—	20	3	17	(159)
Non-controlling interests	28	6	49	44	71
Income tax (expense) benefit	(7)	(2)	(11)	(13)	(15)
Total items that may be reclassified	(332)	(353)	(343)	(34)	(546)
Items that will not be reclassified to Consolidated Statements of Earnings					
Re-measurements on defined benefit pension and other post-employment benefit plans (note 14)	79	150	137	275	24
Income tax (expense) benefit	(20)	(34)	(33)	(63)	(11)
Non-controlling interests	(8)	(10)	(16)	(20)	1
Income tax (expense) benefit	2	2	4	5	—
Total items that will not be reclassified	53	108	92	197	14
Total other comprehensive income (loss)	(279)	(245)	(251)	163	(532)
Comprehensive income	\$ 444	\$ 619	\$ 365	\$ 2,514	\$ 1,321

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

	September 30	December 31
	2018	2017
Assets		
Cash and cash equivalents	\$ 3,882	\$ 3,551
Bonds (note 5)	122,109	120,204
Mortgage loans (note 5)	24,198	22,185
Stocks (note 5)	9,350	8,864
Investment properties (note 5)	5,064	4,851
Loans to policyholders	8,530	8,280
	<u>173,133</u>	<u>167,935</u>
Assets held for sale (note 3)	—	169
Funds held by ceding insurers	9,145	9,893
Goodwill	6,501	6,179
Intangible assets	3,849	3,732
Derivative financial instruments	396	384
Owner occupied properties	699	706
Fixed assets	392	303
Other assets	2,650	2,424
Premiums in course of collection, accounts and interest receivable	5,105	4,647
Reinsurance assets (note 8)	5,895	5,045
Current income taxes	194	134
Deferred tax assets	916	930
Investments on account of segregated fund policyholders (note 9)	220,207	217,357
Total assets	<u>\$ 429,082</u>	<u>\$ 419,838</u>
Liabilities		
Insurance contract liabilities (note 8)	\$ 163,376	\$ 159,524
Investment contract liabilities (note 8)	1,722	1,841
Debentures and other debt instruments	5,926	5,617
Capital trust securities	160	160
Funds held under reinsurance contracts	1,338	373
Derivative financial instruments	1,123	1,336
Accounts payable	3,335	2,684
Other liabilities	3,631	3,752
Current income taxes	398	464
Deferred tax liabilities	1,242	1,194
Investment and insurance contracts on account of segregated fund policyholders (note 9)	220,207	217,357
Total liabilities	<u>402,458</u>	<u>394,302</u>
Equity		
Non-controlling interests		
Participating account surplus in subsidiaries	2,752	2,771
Non-controlling interests in subsidiaries	154	164
Shareholders' equity		
Share capital (note 11)		
Preferred shares	2,714	2,714
Common shares	7,287	7,260
Accumulated surplus	13,032	12,098
Accumulated other comprehensive income	549	386
Contributed surplus	136	143
Total equity	<u>26,624</u>	<u>25,536</u>
Total liabilities and equity	<u>\$ 429,082</u>	<u>\$ 419,838</u>

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

	September 30, 2018					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income	Non-controlling interests	Total equity
Balance, beginning of year	\$ 9,974	\$ 143	\$ 12,098	\$ 386	\$ 2,935	\$ 25,536
Change in accounting policy (note 2)	—	—	(64)	—	—	(64)
Revised balance, beginning of year	9,974	143	12,034	386	2,935	25,472
Net earnings	—	—	2,351	—	2	2,353
Other comprehensive income (loss)	—	—	—	163	(16)	147
	9,974	143	14,385	549	2,921	27,972
Dividends to shareholders						
Preferred shareholders (note 12)	—	—	(100)	—	—	(100)
Common shareholders	—	—	(1,154)	—	—	(1,154)
Shares exercised and issued under share-based payment plans (note 11)	38	(41)	—	—	36	33
Share-based payment plans expense	—	34	—	—	—	34
Equity settlement of Putnam share-based plans	—	—	—	—	(58)	(58)
Shares purchased and cancelled under Normal Course Issuer Bid (note 11)	(48)	—	—	—	—	(48)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 11)	37	—	(37)	—	—	—
Acquisition of PanAgora non-controlling interest (note 3)	—	—	(54)	—	(21)	(75)
Acquisition of Invesco non-controlling interest (note 3)	—	—	—	—	20	20
Dilution gain on non-controlling interests	—	—	(8)	—	8	—
Balance, end of period	\$ 10,001	\$ 136	\$ 13,032	\$ 549	\$ 2,906	\$ 26,624
	September 30, 2017					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	\$ 9,644	\$ 147	\$ 11,465	\$ 746	\$ 3,006	\$ 25,008
Net earnings	—	—	1,853	—	20	1,873
Other comprehensive income (loss)	—	—	—	(532)	(57)	(589)
	9,644	147	13,318	214	2,969	26,292
Dividends to shareholders						
Preferred shareholders (note 12)	—	—	(96)	—	—	(96)
Common shareholders	—	—	(1,090)	—	—	(1,090)
Shares exercised and issued under share-based payment plans (note 11)	137	(59)	—	—	45	123
Share-based payment plans expense	—	41	—	—	—	41
Equity settlement of Putnam share-based plans	—	—	—	—	(54)	(54)
Shares purchased and cancelled under Normal Course Issuer Bid (note 11)	(27)	—	—	—	—	(27)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 11)	22	—	(22)	—	—	—
Issuance of preferred shares	200	—	—	—	—	200
Preferred share issue costs	—	—	(3)	—	—	(3)
Dilution gain on non-controlling interests	—	—	3	—	(3)	—
Disposal of investment in associate	—	—	(13)	13	—	—
Balance, end of period	\$ 9,976	\$ 129	\$ 12,097	\$ 227	\$ 2,957	\$ 25,386

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

	For the nine months ended September 30	
	2018	2017
Operations		
Earnings before income taxes	\$ 2,690	\$ 2,113
Income taxes paid, net of refunds received	(331)	(279)
Adjustments:		
Change in insurance and investment contract liabilities	(512)	2,398
Change in funds held by ceding insurers	481	545
Change in funds held under reinsurance contracts	(25)	32
Change in reinsurance assets	58	331
Changes in fair value through profit or loss	3,208	(51)
Other	(640)	(619)
	<u>4,929</u>	<u>4,470</u>
Financing Activities		
Issue of common shares (note 11)	38	121
Issue of preferred shares	—	200
Share issue costs	—	(3)
Purchased and cancelled common shares (note 11)	(48)	(27)
Issue of debentures and senior notes (note 10)	1,512	925
Repayment of debentures (note 10)	(1,096)	(1,284)
Decrease in line of credit of subsidiary	(159)	(147)
Decrease in debentures and other debt instruments	—	(2)
Dividends paid on common shares	(1,154)	(1,090)
Dividends paid on preferred shares	(100)	(96)
	<u>(1,007)</u>	<u>(1,403)</u>
Investment Activities		
Bond sales and maturities	19,117	19,272
Mortgage loan repayments	2,156	2,054
Stock sales	2,465	2,645
Investment property sales	20	44
Change in loans to policyholders	(118)	(124)
Proceeds from assets held for sale (note 3)	169	—
Business acquisitions, net of cash and cash equivalents acquired (note 3)	(279)	(291)
Investment in bonds	(20,739)	(21,373)
Investment in mortgage loans	(3,303)	(2,663)
Investment in stocks	(2,874)	(2,413)
Investment in investment properties	(220)	(302)
	<u>(3,606)</u>	<u>(3,151)</u>
Effect of changes in exchange rates on cash and cash equivalents	15	(69)
Increase (decrease) in cash and cash equivalents	331	(153)
Cash and cash equivalents, beginning of period	3,551	3,259
Cash and cash equivalents, end of period	\$ 3,882	\$ 3,106
Supplementary cash flow information		
Interest income received	\$ 3,961	\$ 3,801
Interest paid	185	195
Dividend income received	189	176

CONDENSED NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

(in Canadian \$ millions except per share amounts)

1. Corporate Information

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

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

The condensed consolidated interim unaudited financial statements (financial statements) of the Company as at and for the three and nine months ended September 30, 2018 were approved by the Board of Directors on October 31, 2018.

2. Basis of Presentation and Summary of Accounting Policies

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

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

Changes in Accounting Policies

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

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

Comparative Figures

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

Increase (decrease)	Gross premiums written	Fee and other income	Commissions	Operating and administrative expenses
For the three months ended September 30, 2017				
Amounts previously reported	\$ 9,346	\$ 1,365	\$ 521	\$ 1,143
Reclassification	(11)	35	58	(34)
Revised amount presented	<u>\$ 9,335</u>	<u>\$ 1,400</u>	<u>\$ 579</u>	<u>\$ 1,109</u>
For the nine months ended September 30, 2017				
Amounts previously reported	\$ 28,622	\$ 4,051	\$ 1,823	\$ 3,561
Reclassification	(33)	118	178	(93)
Revised amount presented	<u>\$ 28,589</u>	<u>\$ 4,169</u>	<u>\$ 2,001</u>	<u>\$ 3,468</u>

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

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

Use of Significant Judgments, Estimates and Assumptions

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

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

3. Business Acquisitions, Disposals and Other Transactions

(a) Retirement Advantage

On January 2, 2018, the Company, through its indirect wholly-owned subsidiary The Canada Life Group (UK) Ltd., completed the acquisition of 100% of the outstanding shares of MGM Advantage Holdings Ltd. which operated as Retirement Advantage. Retirement Advantage is a financial services provider based in the United Kingdom that offers retirement and equity release services and on October 1, 2018, was rebranded Canada Life. The operations of Retirement Advantage are being integrated with Canada Life as part of the United Kingdom Business Transformation (note 4).

During the third quarter of 2018, the Company continued its comprehensive evaluation of the fair value of the net assets acquired from MGM Advantage Holdings Ltd. and the purchase price allocation. As a result, initial goodwill presented in the March 31, 2018, and June 30, 2018, interim unaudited financial statements of \$240 recognized upon the acquisition of MGM Advantage Holdings Ltd. has been adjusted for the period ended September 30, 2018. Adjustments were made to the provisional amounts reported in the March 31, 2018, and June 30, 2018, interim unaudited financial statements for the recognition and measurement of intangible assets and certain other items.

The amounts assigned to the assets acquired, goodwill, and liabilities assumed on January 2, 2018, reported as at September 30, 2018, are as follows:

Assets acquired and goodwill	
Bonds	\$ 1,748
Reinsurance assets	931
Mortgage loans - equity release mortgages	799
Cash and cash equivalents and other assets	261
Intangible assets	56
Goodwill	205
Investments on account of segregated fund policyholders	950
Total assets acquired and goodwill	\$ 4,950
Liabilities assumed	
Insurance contract liabilities	\$ 2,572
Funds held under reinsurance assets	997
Other liabilities	32
Investment and insurance contracts on account of segregated fund policyholders	950
Total liabilities assumed	\$ 4,551

The following provides the change in carrying value from June 30 to September 30 of the goodwill on acquisition:

Goodwill previously reported at June 30, 2018	\$ 240
Recognition and measurement of intangible assets	(56)
Deferred tax liabilities and other adjustments	21
Goodwill reported at September 30, 2018	\$ 205

The goodwill represents the excess of the purchase price over the fair value of the net assets, representing the synergies or future economic benefits arising from other assets acquired that are not individually identified and separately recognized in the acquisition. The goodwill is not deductible for tax purposes.

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

As at September 30, 2018, the accounting for the acquisition is incomplete pending completion of a comprehensive valuation of the net assets acquired. The financial statements at September 30, 2018 reflect management's best estimate of the purchase price allocation, which includes provisional amounts. The comprehensive evaluation of the assets acquired and liabilities assumed, and completion of the purchase price allocation will be finalized during the fourth quarter of 2018.

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

(b) EverWest Real Estate Partners

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

(c) Acquisition of PanAgora Non-Controlling Interest

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

(d) Disposal of Assets Held for Sale

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

(e) Invesco Ltd. (Ireland)

On August 1, 2018, the Company, through its indirect wholly-owned subsidiary Irish Life Group Limited, completed its agreement to acquire a controlling interest in Invesco Ltd. (Ireland), an independent financial consultancy firm in Ireland that specializes in employee benefit consultancy and private wealth management who manages and administers assets on behalf of clients. This transaction increased non-controlling interests by \$20, with no significant impact on revenue and net earnings. As at September 30, 2018, the purchase price allocation is incomplete, with the initial amount assigned to goodwill of \$80 on the date of acquisition to be adjusted pending the completion of a comprehensive valuation of the intangible assets acquired.

(f) Sale of Policies to Scottish Friendly

On June 21, 2018, Canada Life Limited, an indirect wholly-owned subsidiary of the Company, announced an agreement to sell a heritage block of individual policies to Scottish Friendly of approximately \$4.7 billion, comprised of unit-linked policies of approximately \$3.8 billion and non unit-linked policies of \$0.9 billion. These balances have not been classified as held for sale, pending the determination of the actual amount and allocation of assets and similar amount of liabilities to be transferred. This determination will be completed following the allocation of assets which will be agreed in due course, in accordance with the business transfer agreement. Upon completion of the data audit and other conditions being met, management will re-evaluate the classification of these agreed upon amounts as held for sale. The transfer of these policies is expected to occur in the second half of 2019, as part of the United Kingdom Business Transformation (note 4).

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

4. Restructuring Expenses

Canadian Business Transformation

At September 30, 2018, the Company has a restructuring provision of \$36 remaining in other liabilities. The change in the restructuring provision for the Canadian Business Transformation is set out below:

Balance, beginning of year	\$	120
Amounts used		(84)
Balance, end of period	\$	<u>36</u>

United Kingdom Business Transformation

In the third quarter of 2018, the Company recorded a restructuring provision in the European segment of \$67 pre-tax (\$56 after-tax) in the common shareholder's account. This restructuring is in respect of activities aimed at achieving planned expense reductions and an organizational realignment. The expense reductions will be achieved through system exit costs, reduction in staff and other costs as a result of integrating Retirement Advantage into Canada Life along with the sale of a heritage block of individual policies to Scottish Friendly.

At September 30, 2018, the Company has a restructuring provision of \$61 recorded in other liabilities for this charge. The change in the restructuring provision for the United Kingdom Business Transformation is set out below:

Balance, beginning of year	\$	—
Restructuring expenses		67
Amounts used		(6)
Balance, end of period	\$	<u>61</u>

5. Portfolio Investments

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

	September 30, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss ⁽¹⁾	\$ 88,250	\$ 88,250	\$ 88,062	\$ 88,062
Classified fair value through profit or loss ⁽¹⁾	1,862	1,862	1,836	1,836
Available-for-sale	12,904	12,904	12,347	12,347
Loans and receivables	19,093	19,884	17,959	19,470
	122,109	122,900	120,204	121,715
Mortgage loans				
Residential				
Designated fair value through profit or loss ⁽¹⁾⁽³⁾	740	740	—	—
Loans and receivables	9,581	9,539	8,905	9,083
	10,321	10,279	8,905	9,083
Commercial	13,877	14,018	13,280	13,922
	24,198	24,297	22,185	23,005
Stocks				
Designated fair value through profit or loss ⁽¹⁾	8,730	8,730	8,097	8,097
Available-for-sale	13	13	55	55
Available-for-sale, at cost ⁽²⁾	255	255	348	348
Equity method	352	332	364	406
	9,350	9,330	8,864	8,906
Investment properties	5,064	5,064	4,851	4,851
Total	\$ 160,721	\$ 161,591	\$ 156,104	\$ 158,477

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

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

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

⁽³⁾ Equity release mortgages acquired with the acquisition of Retirement Advantage (note 3) are designated at fair value through profit or loss. There are no market observable prices for equity release mortgages; therefore an internal discounted cash flow model is used to value these assets. These mortgage loans are included at Level 3 of the fair value hierarchy (note 7).

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5. Portfolio Investments (cont'd)

(b) Included in portfolio investments are the following:

Carrying amount of impaired investments

	September 30 2018	December 31 2017
Impaired amounts by classification		
Fair value through profit or loss	\$ 192	\$ 233
Available-for-sale	35	17
Loans and receivables	27	41
Total	\$ 254	\$ 291

The carrying amount of impaired investments includes \$217 bonds, \$23 mortgage loans and \$14 stocks at September 30, 2018 (\$246 bonds, \$34 mortgage loans and \$11 stocks at December 31, 2017). The above carrying values for loans and receivables are net of allowances of \$20 at September 30, 2018 and \$40 at December 31, 2017.

(c) Net investment income comprises the following:

For the three months ended September 30, 2018	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 1,104	\$ 230	\$ 61	\$ 83	\$ 142	\$ 1,620
Net realized gains (losses)						
Available-for-sale	(2)	—	—	—	—	(2)
Other classifications	5	12	—	—	—	17
Net allowances for credit losses on loans and receivables	—	(4)	—	—	—	(4)
Other income (expenses)	—	—	—	(22)	(31)	(53)
	1,107	238	61	61	111	1,578
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(17)	—	(1)	—	—	(18)
Designated fair value through profit or loss	(1,260)	(4)	36	—	(101)	(1,329)
Recorded at fair value through profit or loss	—	—	—	(24)	—	(24)
	(1,277)	(4)	35	(24)	(101)	(1,371)
Total	\$ (170)	\$ 234	\$ 96	\$ 37	\$ 10	\$ 207

GREAT-WEST LIFECO INC.

5. Portfolio Investments (cont'd)

For the three months ended September 30, 2017	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 1,060	\$ 220	\$ 60	\$ 79	\$ 148	\$ 1,567
Net realized gains (losses)						
Available-for-sale	(2)	—	(1)	—	—	(3)
Other classifications	1	7	—	—	—	8
Net allowances for credit losses on loans and receivables	(3)	—	—	—	—	(3)
Other income (expenses)	—	—	—	(22)	(30)	(52)
	<u>1,056</u>	<u>227</u>	<u>59</u>	<u>57</u>	<u>118</u>	<u>1,517</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(25)	—	—	—	—	(25)
Designated fair value through profit or loss	(1,054)	—	177	—	(136)	(1,013)
Recorded at fair value through profit or loss	—	—	—	50	—	50
	<u>(1,079)</u>	<u>—</u>	<u>177</u>	<u>50</u>	<u>(136)</u>	<u>(988)</u>
Total	<u>\$ (23)</u>	<u>\$ 227</u>	<u>\$ 236</u>	<u>\$ 107</u>	<u>\$ (18)</u>	<u>\$ 529</u>

For the nine months ended September 30, 2018	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 3,293	\$ 684	\$ 188	\$ 253	\$ 375	\$ 4,793
Net realized gains (losses)						
Available-for-sale	(7)	—	2	—	—	(5)
Other classifications	12	72	—	—	21	105
Net allowances for credit losses on loans and receivables	—	(4)	—	—	—	(4)
Other income (expenses)	—	—	—	(69)	(94)	(163)
	<u>3,298</u>	<u>752</u>	<u>190</u>	<u>184</u>	<u>302</u>	<u>4,726</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(30)	—	(1)	—	—	(31)
Designated fair value through profit or loss	(3,315)	(41)	94	—	55	(3,207)
Recorded at fair value through profit or loss	—	—	—	30	—	30
	<u>(3,345)</u>	<u>(41)</u>	<u>93</u>	<u>30</u>	<u>55</u>	<u>(3,208)</u>
Total	<u>\$ (47)</u>	<u>\$ 711</u>	<u>\$ 283</u>	<u>\$ 214</u>	<u>\$ 357</u>	<u>\$ 1,518</u>

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5. Portfolio Investments (cont'd)

For the nine months ended September 30, 2017	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 3,211	\$ 671	\$ 195	\$ 235	\$ 357	\$ 4,669
Net realized gains (losses)						
Available-for-sale	18	—	(1)	—	—	17
Other classifications	12	32	—	—	—	44
Net allowances for credit losses on loans and receivables	3	(4)	—	—	—	(1)
Other income (expenses)	—	—	—	(63)	(89)	(152)
	<u>3,244</u>	<u>699</u>	<u>194</u>	<u>172</u>	<u>268</u>	<u>4,577</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(22)	—	3	—	—	(19)
Designated fair value through profit or loss	(172)	—	273	—	(154)	(53)
Recorded at fair value through profit or loss	—	—	—	123	—	123
	<u>(194)</u>	<u>—</u>	<u>276</u>	<u>123</u>	<u>(154)</u>	<u>51</u>
Total	<u>\$ 3,050</u>	<u>\$ 699</u>	<u>\$ 470</u>	<u>\$ 295</u>	<u>\$ 114</u>	<u>\$ 4,628</u>

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

6. Financial Instruments Risk Management

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

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

(a) Credit Risk

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

Concentration of Credit Risk

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

(b) Liquidity Risk

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

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

(c) Market Risk

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

Caution Related to Risk Sensitivities

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

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

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

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

(i) **Currency Risk**

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

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

(ii) **Interest Rate Risk**

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

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

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

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

6. Financial Instruments Risk Management (cont'd)

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

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

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

	September 30, 2018		December 31, 2017	
	1% increase	1% decrease	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (192)	\$ 648	\$ (215)	\$ 720
Increase (decrease) in net earnings	\$ 136	\$ (473)	\$ 150	\$ (523)

(iii) Equity Risk

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

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities, for example segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity values. However, there may be additional market and liability impacts as a result of changes in the equity values that will cause the liabilities to fluctuate differently than the equity values. The following provides information on the expected impacts of a 10% increase or 10% decrease in equity values:

	September 30, 2018		December 31, 2017	
	10% increase	10% decrease	10% increase	10% decrease
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (84)	\$ 205	\$ (58)	\$ 109
Increase (decrease) in net earnings	\$ 70	\$ (161)	\$ 48	\$ (85)

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

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

	September 30, 2018		December 31, 2017	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions for equities				
Increase (decrease) in non-participating insurance contract liabilities	\$ (565)	\$ 648	\$ (542)	\$ 591
Increase (decrease) in net earnings	\$ 455	\$ (514)	\$ 439	\$ (470)

7. **Fair Value Measurement**

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

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

Level 2: Fair value measurements utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 assets and liabilities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities, most over-the-counter derivatives, and most mortgage loans. Investment contracts that are measured at fair value through profit or loss are mostly included in the Level 2 category.

Level 3: Fair value measurements utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single broker quotes, internal pricing models, or external appraisers. Assets and liabilities utilizing Level 3 inputs generally include certain bonds, certain asset-backed securities, some private equities, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, investment properties and equity release mortgages.

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7. Fair Value Measurement (cont'd)

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

Assets measured at fair value	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,882	\$ —	\$ —	\$ 3,882
Financial assets at fair value through profit or loss				
Bonds	—	90,048	64	90,112
Mortgage loans	—	—	740	740
Stocks	8,400	—	330	8,730
Total financial assets at fair value through profit or loss	8,400	90,048	1,134	99,582
Available-for-sale financial assets				
Bonds	—	12,904	—	12,904
Stocks	6	6	1	13
Total available-for-sale financial assets	6	12,910	1	12,917
Investment properties	—	—	5,064	5,064
Funds held by ceding insurers	105	6,981	—	7,086
Derivatives ⁽¹⁾	2	394	—	396
Other assets:				
Trading account assets	683	250	—	933
Other ⁽²⁾	—	86	—	86
Total assets measured at fair value	\$ 13,078	\$ 110,669	\$ 6,199	\$ 129,946
Liabilities measured at fair value				
Derivatives ⁽³⁾	\$ 3	\$ 1,120	\$ —	\$ 1,123
Investment contract liabilities	—	1,704	18	1,722
Other liabilities	—	86	—	86
Total liabilities measured at fair value	\$ 3	\$ 2,910	\$ 18	\$ 2,931

⁽¹⁾ Excludes collateral received from counterparties of \$53.

⁽²⁾ Includes collateral received under securities lending agreements.

⁽³⁾ Excludes collateral pledged to counterparties of \$372.

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

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7. Fair Value Measurement (cont'd)

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

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

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

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

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7. Fair Value Measurement (cont'd)

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

September 30, 2018							
	Fair value through profit or loss bonds	Fair value through profit or loss mortgage loans	Fair value through profit or loss stocks	Available- for-sale stocks	Investment properties	Total Level 3 assets	Investment contract liabilities
Balance, beginning of year	\$ 65	\$ —	\$ 243	\$ 1	\$ 4,851	\$ 5,160	\$ 22
Total gains (losses)							
Included in net earnings	—	(41)	7	—	30	(4)	—
Included in other comprehensive income ⁽¹⁾	(1)	(3)	—	—	(17)	(21)	—
Business acquisition (note 3)	—	799	—	—	—	799	—
Purchases	—	—	114	—	220	334	—
Issues	—	26	—	—	—	26	—
Sales	—	—	(34)	—	(20)	(54)	—
Settlements	—	(41)	—	—	—	(41)	—
Other	—	—	—	—	—	—	(4)
Transfers into Level 3	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—
Balance, end of period	\$ 64	\$ 740	\$ 330	\$ 1	\$ 5,064	\$ 6,199	\$ 18
Total gains (losses) for the period included in net investment income	\$ —	\$ (41)	\$ 7	\$ —	\$ 30	\$ (4)	\$ —
Change in unrealized gains (losses) for the period included in earnings for assets held at September 30, 2018	\$ —	\$ (41)	\$ 7	\$ —	\$ 29	\$ (5)	\$ —

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

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7. Fair Value Measurement (cont'd)

December 31, 2017

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

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

7. Fair Value Measurement (cont'd)

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

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate Reversionary rate Vacancy rate	Range of 2.5% - 10.3% Range of 4.0% - 7.5% Weighted average of 2.3%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value. A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value. A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage loans (fair value through profit or loss)	The valuation approach for equity release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/entering into long term care of the loanholders.	Discount rate	4.7%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

8. Insurance and Investment Contract Liabilities

September 30, 2018			
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 163,376	\$ 5,895	\$ 157,481
Investment contract liabilities	1,722	—	1,722
Total	\$ 165,098	\$ 5,895	\$ 159,203
December 31, 2017			
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 159,524	\$ 5,045	\$ 154,479
Investment contract liabilities	1,841	—	1,841
Total	\$ 161,365	\$ 5,045	\$ 156,320

9. Segregated Funds

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

(a) Investments on account of segregated fund policyholders

	September 30	December 31
	2018	2017
Cash and cash equivalents	\$ 12,669	\$ 13,300
Bonds	41,385	42,270
Mortgage loans	2,705	2,610
Stocks and units in unit trusts	98,252	93,465
Mutual funds	55,005	54,658
Investment properties	11,979	11,520
	<u>221,995</u>	<u>217,823</u>
Accrued income	401	373
Other liabilities	(3,034)	(2,441)
Non-controlling mutual funds interest	845	1,602
Total	<u><u>\$ 220,207</u></u>	<u><u>\$ 217,357</u></u>

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

	For the nine months	
	ended September 30	
	2018	2017
Balance, beginning of year	\$ 217,357	\$ 200,403
Additions (deductions):		
Policyholder deposits	18,129	17,519
Net investment income	1,434	1,273
Net realized capital gains on investments	3,428	4,074
Net unrealized capital gains (losses) on investments	(476)	2,667
Unrealized gains (losses) due to changes in foreign exchange rates	68	(93)
Policyholder withdrawals	(19,950)	(17,213)
Business acquisition ⁽¹⁾	950	—
Change in Segregated Fund investment in General Fund	21	(38)
Change in General Fund investment in Segregated Fund	(16)	(10)
Net transfer from General Fund	19	133
Non-controlling mutual funds interest	(757)	(669)
Total	<u>2,850</u>	<u>7,643</u>
Balance, end of period	<u><u>\$ 220,207</u></u>	<u><u>\$ 208,046</u></u>

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

9. Segregated Funds (cont'd)

(c) Investments on account of segregated fund policyholders by fair value hierarchy level (note 7)

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ⁽¹⁾	\$ 144,089	\$ 65,681	\$ 12,816	\$ 222,586

⁽¹⁾ Excludes other liabilities, net of other assets, of \$2,379.

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ⁽¹⁾	\$ 136,469	\$ 70,034	\$ 12,572	\$ 219,075

⁽¹⁾ Excludes other liabilities, net of other assets, of \$1,718.

During the first nine months of 2018 certain foreign stock holdings valued at \$3,218 have been transferred from Level 2 to Level 1 (\$629 were transferred from Level 1 to Level 2 at December 31, 2017) primarily based on the Company's change in use of inputs in addition to quoted prices in active markets for certain foreign stock holdings. Level 2 assets include those assets where fair value is not available from normal market pricing sources, where inputs are utilized in addition to quoted prices in active markets and where the Company does not have visibility through to the underlying assets.

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

	September 30 2018	December 31 2017
Balance, beginning of year	\$ 12,572	\$ 12,045
Total gains included in segregated fund investment income	204	422
Purchases	450	926
Sales	(407)	(943)
Transfers into Level 3	5	137
Transfers out of Level 3	(8)	(15)
Balance, end of period	\$ 12,816	\$ 12,572

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

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

10. Debentures and Other Debt Instruments

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

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

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

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

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

11. Share Capital

(a) Common Shares

	For the nine months ended September 30			
	2018		2017	
	Number	Carrying value	Number	Carrying value
Common shares				
Balance, beginning of year	988,722,659	\$ 7,260	986,398,335	\$ 7,130
Purchased and cancelled under Normal Course Issuer Bid	(1,457,456)	(48)	(780,709)	(27)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid	—	37	—	22
Exercised and issued under stock option plan	1,118,249	38	3,956,524	137
Balance, end of period	988,383,452	\$ 7,287	989,574,150	\$ 7,262

During the nine months ended September 30, 2018, 1,118,249 common shares were exercised under the Company's stock plan with a carrying value of \$38, including \$4 from contributed surplus transferred upon exercise (3,956,524 with a carrying value of \$137, including \$16 from contributed surplus transferred upon exercise during the nine months ended September 30, 2017).

11. *Share Capital (cont'd)*

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

During the nine months ended September 30, 2018, the Company repurchased and subsequently cancelled 1,457,456 common shares under the current normal course issuer bid at a cost of \$48 (780,709 during the nine months ended September 30, 2017 under the previous normal course issuer bid at a cost of \$27). The Company's share capital was reduced by the average carrying value of the shares repurchased for cancellation. The excess paid over the average carrying value was \$37 and was recognized as a reduction to equity during the nine months ended September 30, 2018 (\$22 during the nine months ended September 30, 2017 under the previous normal course issuer bid).

12. **Earnings per Common Share**

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Earnings				
Net earnings	\$ 723	\$ 616	\$ 2,351	\$ 1,853
Preferred share dividends	(34)	(35)	(100)	(96)
Net earnings - common shareholders	\$ 689	\$ 581	\$ 2,251	\$ 1,757
Number of common shares				
Average number of common shares outstanding	988,674,609	989,723,743	988,785,884	989,150,836
Add: Potential exercise of outstanding stock options	717,086	1,331,533	903,225	1,561,136
Average number of common shares outstanding - diluted basis	989,391,695	991,055,276	989,689,109	990,711,972
Basic earnings per common share	\$ 0.697	\$ 0.587	\$ 2.277	\$ 1.776
Diluted earnings per common share	\$ 0.697	\$ 0.587	\$ 2.275	\$ 1.773
Dividends per common share	\$ 0.3890	\$ 0.3670	\$ 1.1670	\$ 1.1010

13. **Capital Management**

(a) **Policies and Objectives**

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

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

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

13. Capital Management (cont'd)

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

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

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

(b) Regulatory Capital

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a regulatory capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries. Effective January 1, 2018, OSFI replaced the prior Minimum Continuing Capital and Surplus Requirements (MCCSR) with the Life Insurance Capital Adequacy Test (LICAT).

The LICAT Ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer, defined by OSFI, is the aggregate of all defined capital requirements multiplied by a scalar of 1.05. The total capital resources are provided by the sum of Available Capital, Surplus Allowance and Eligible Deposits. The following provides a summary of the LICAT information and ratios for Great-West Life, for the reporting period ended September 30, 2018:

	September 30 2018
Tier 1 Capital	\$ 12,315
Tier 2 Capital	3,255
Total Available Capital	15,570
Surplus Allowance & Eligible Deposits	10,258
Total Capital Resources	\$ 25,828
Base Solvency Buffer (includes 1.05 scalar)	\$ 19,322
Total LICAT Ratio (OSFI Supervisory Target = 100%) ⁽¹⁾	134%

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

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

14. Pension Plans and Other Post-Employment Benefits

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

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Pension plans				
Service costs	\$ 57	\$ 54	\$ 171	\$ 161
Net interest costs	6	6	19	19
Curtailment	—	(20)	(1)	(22)
	63	40	189	158
Other post-employment benefits				
Service costs	1	1	2	2
Net interest costs	3	4	10	11
	4	5	12	13
Pension plans and other post-employment benefits expense - Consolidated Statements of Earnings	67	45	201	171
Pension plans - re-measurements				
Actuarial (gain) loss	(108)	(153)	(302)	72
Return on assets less (greater) than assumed	28	12	14	(101)
Administrative expenses less than assumed	(1)	(1)	(2)	(3)
Change in the asset ceiling	9	20	32	4
Actuarial loss - investment in associate	—	—	—	1
Pension plans re-measurement gain	(72)	(122)	(258)	(27)
Other post-employment benefits - re-measurements				
Actuarial (gain) loss	(7)	(15)	(17)	3
Pension plans and other post-employment benefits re-measurements - other comprehensive income	(79)	(137)	(275)	(24)
Total pension plans and other post-employment benefits expense (income) including re- measurements	\$ (12)	\$ (92)	\$ (74)	\$ 147

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

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

15. Income Taxes

(a) Income Tax Expense

Income tax expense (recovery) consists of the following:

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Current income taxes	\$ 78	\$ 60	\$ 243	\$ 298
Deferred income taxes	29	33	94	(58)
Total income tax expense	\$ 107	\$ 93	\$ 337	\$ 240

(b) Effective Income Tax Rate

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

The overall effective income tax rate for the three months ended September 30, 2018 was 13.1% which is comparable to 12.7% for the three months ended September 30, 2017.

The overall effective income tax rate for the nine months ended September 30, 2018 was 12.5% compared to 11.4% for the nine months ended September 30, 2017 primarily due to changes in certain tax estimates.

16. Segmented Information

Consolidated Net Earnings

For the three months ended September 30, 2018

	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	\$ 3,266	\$ 1,148	\$ 5,923	\$ —	\$ 10,337
Net investment income					
Regular net investment income	663	460	451	4	1,578
Changes in fair value through profit or loss	(646)	(160)	(565)	—	(1,371)
Total net investment income	17	300	(114)	4	207
Fee and other income	437	673	373	—	1,483
	<u>3,720</u>	<u>2,121</u>	<u>6,182</u>	<u>4</u>	<u>12,027</u>
Benefits and expenses					
Paid or credited to policyholders	2,468	1,233	5,345	—	9,046
Other ⁽¹⁾	841	695	436	5	1,977
Financing charges	32	28	8	1	69
Amortization of finite life intangible assets	20	24	10	—	54
Restructuring expenses	—	—	67	—	67
Earnings (loss) before income taxes	<u>359</u>	<u>141</u>	<u>316</u>	<u>(2)</u>	<u>814</u>
Income taxes (recovery)	65	24	19	(1)	107
Net earnings (loss) before non-controlling interests	<u>294</u>	<u>117</u>	<u>297</u>	<u>(1)</u>	<u>707</u>
Non-controlling interests	(19)	2	1	—	(16)
Net earnings (loss)	<u>313</u>	<u>115</u>	<u>296</u>	<u>(1)</u>	<u>723</u>
Preferred share dividends	29	—	5	—	34
Net earnings (loss) before capital allocation	<u>284</u>	<u>115</u>	<u>291</u>	<u>(1)</u>	<u>689</u>
Impact of capital allocation	31	(2)	(28)	(1)	—
Net earnings (loss) - common shareholders	<u>\$ 315</u>	<u>\$ 113</u>	<u>\$ 263</u>	<u>\$ (2)</u>	<u>\$ 689</u>

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

GREAT-WEST LIFECO INC.

16. Segmented Information (cont'd)

For the three months ended September 30, 2017

	Canada	United States	Europe	Lifeco Corporate	Total
	(note 2)	(note 2)			(note 2)
Income					
Total net premiums	\$ 3,220	\$ 1,241	\$ 3,832	\$ —	\$ 8,293
Net investment income					
Regular net investment income	640	458	418	1	1,517
Changes in fair value through profit or loss	(852)	11	(147)	—	(988)
Total net investment income	(212)	469	271	1	529
Fee and other income	426	626	348	—	1,400
	<u>3,434</u>	<u>2,336</u>	<u>4,451</u>	<u>1</u>	<u>10,222</u>
Benefits and expenses					
Paid or credited to policyholders	2,219	1,492	3,856	—	7,567
Other ⁽¹⁾	776	637	386	7	1,806
Financing charges	31	28	12	—	71
Amortization of finite life intangible assets	18	21	8	—	47
Restructuring expenses	—	—	1	—	1
Earnings (loss) before income taxes	390	158	188	(6)	730
Income taxes (recovery)	74	41	(20)	(2)	93
Net earnings (loss) before non-controlling interests	316	117	208	(4)	637
Non-controlling interests	19	2	—	—	21
Net earnings (loss)	297	115	208	(4)	616
Preferred share dividends	26	—	5	4	35
Net earnings (loss) before capital allocation	271	115	203	(8)	581
Impact of capital allocation	25	(5)	(19)	(1)	—
Net earnings (loss) - common shareholders	<u>\$ 296</u>	<u>\$ 110</u>	<u>\$ 184</u>	<u>\$ (9)</u>	<u>\$ 581</u>

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

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16. Segmented Information (cont'd)

For the nine months ended September 30, 2018

	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	\$ 9,558	\$ 3,116	\$ 13,742	\$ —	\$ 26,416
Net investment income					
Regular net investment income	1,941	1,363	1,413	9	4,726
Changes in fair value through profit or loss	(731)	(1,000)	(1,477)	—	(3,208)
Total net investment income	1,210	363	(64)	9	1,518
Fee and other income	1,308	1,959	1,132	—	4,399
	<u>12,076</u>	<u>5,438</u>	<u>14,810</u>	<u>9</u>	<u>32,333</u>
Benefits and expenses					
Paid or credited to policyholders	8,291	2,879	12,212	—	23,382
Other ⁽¹⁾	2,469	2,055	1,351	15	5,890
Financing charges	96	26	28	1	151
Amortization of finite life intangible assets	60	67	26	—	153
Restructuring expenses	—	—	67	—	67
Earnings (loss) before income taxes	<u>1,160</u>	<u>411</u>	<u>1,126</u>	<u>(7)</u>	<u>2,690</u>
Income taxes (recovery)	203	68	68	(2)	337
Net earnings (loss) before non-controlling interests	<u>957</u>	<u>343</u>	<u>1,058</u>	<u>(5)</u>	<u>2,353</u>
Non-controlling interests	(2)	3	1	—	2
Net earnings (loss)	<u>959</u>	<u>340</u>	<u>1,057</u>	<u>(5)</u>	<u>2,351</u>
Preferred share dividends	86	—	14	—	100
Net earnings (loss) before capital allocation	<u>873</u>	<u>340</u>	<u>1,043</u>	<u>(5)</u>	<u>2,251</u>
Impact of capital allocation	92	(7)	(81)	(4)	—
Net earnings (loss) - common shareholders	<u>\$ 965</u>	<u>\$ 333</u>	<u>\$ 962</u>	<u>\$ (9)</u>	<u>\$ 2,251</u>

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

GREAT-WEST LIFECO INC.

16. Segmented Information (cont'd)

For the nine months ended September 30, 2017

	Canada	United States	Europe	Lifeco Corporate	Total
	(note 2)	(note 2)			(note 2)
Income					
Total net premiums	\$ 9,682	\$ 3,412	\$ 12,314	\$ —	\$ 25,408
Net investment income					
Regular net investment income	1,895	1,364	1,316	2	4,577
Changes in fair value through profit or loss	(195)	387	(141)	—	51
Total net investment income	1,700	1,751	1,175	2	4,628
Fee and other income	1,248	1,903	1,018	—	4,169
	<u>12,630</u>	<u>7,066</u>	<u>14,507</u>	<u>2</u>	<u>34,205</u>
Benefits and expenses					
Paid or credited to policyholders	8,797	4,520	12,339	—	25,656
Other ⁽¹⁾	2,601	2,021	1,177	18	5,817
Financing charges	92	99	34	1	226
Amortization of finite life intangible assets	52	64	23	—	139
Restructuring expenses	215	17	22	—	254
Earnings (loss) before income taxes	873	345	912	(17)	2,113
Income taxes (recovery)	117	80	48	(5)	240
Net earnings (loss) before non-controlling interests	756	265	864	(12)	1,873
Non-controlling interests	17	4	(1)	—	20
Net earnings (loss)	739	261	865	(12)	1,853
Preferred share dividends	78	—	14	4	96
Net earnings (loss) before capital allocation	661	261	851	(16)	1,757
Impact of capital allocation	75	(13)	(57)	(5)	—
Net earnings (loss) - common shareholders	<u>\$ 736</u>	<u>\$ 248</u>	<u>\$ 794</u>	<u>\$ (21)</u>	<u>\$ 1,757</u>

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