

To the Shareholders

Consolidated Results of Power Corporation

For the period ended September 30, 2018

Highlights

- The Corporation completed the disposal of assets of La Presse, Itée (La Presse) to a not-for-profit organization.
- Early redemption of 7.57% debentures due April 22, 2019, refinanced with 4.455% debentures due in 2048, reducing annual financing expense by \$8 million.

Third Quarter

Net earnings attributable to participating shareholders were \$186 million or \$0.40 per share, compared with \$470 million or \$1.02 per share in 2017. Power Financial Corporation's (Power Financial) contribution to earnings was \$72 million higher than the corresponding period, however, net earnings were adversely impacted by lower income from investments and the loss resulting from the La Presse transaction. The prior year included a gain of \$174 million on the Corporation's investment in China Asset Management Co., Ltd. (China AMC).

Adjusted net earnings attributable to participating shareholders (a non-IFRS financial measure)^[1] were \$283 million or \$0.61 per share, compared with \$471 million or \$1.02 per share in 2017.

Other items, not included in adjusted net earnings, resulted in a charge of \$97 million in the third quarter of 2018 consisting of:

- the Corporation's share of Great-West Lifeco's (Lifeco) restructuring charges related to the integration of U.K. financial services provider Retirement Advantage as well as the pending sale of a heritage block of policies;
- the Corporation's share of IGM Financial Inc.'s (IGM) restructuring and other charges resulting from the re-engineering of North American equity offerings as well as a premium on the early redemption of IGM's debentures; and
- the loss realized by Power Corporation as a result of the disposal of assets of La Presse and the premium paid on the early redemption of its debentures.

Contributions to Power Corporation's net earnings and adjusted net earnings were:

(in millions of dollars)	2018		2017	
	Net Earnings	Adjusted Net Earnings	Net Earnings	Adjusted Net Earnings
Power Financial	341	377	304	305
Sagard Investment Funds, China AMC and Other investments	(28)	(28)	219	219
Corporate and Other subsidiaries	(127)	(66)	(53)	(53)
	186	283	470	471

Nine Months

Net earnings attributable to participating shareholders were \$1,058 million or \$2.28 per share, compared with \$1,078 million or \$2.33 per share in 2017.

Adjusted net earnings attributable to participating shareholders were \$1,155 million or \$2.49 per share, compared with \$1,141 million or \$2.46 per share in 2017.

Contributions to Power Corporation's net earnings and adjusted net earnings were:

(in millions of dollars)	2018		2017	
	Net Earnings	Adjusted Net Earnings	Net Earnings	Adjusted Net Earnings
Power Financial	1,157	1,193	978	1,041
Sagard Investment Funds, China AMC and Other investments	184	184	306	306
Corporate and Other subsidiaries	(283)	(222)	(206)	(206)
	1,058	1,155	1,078	1,141

[1] Non-IFRS financial measures do not have standard meanings and may not be comparable to similar measures used by other entities. See the "Non-IFRS Financial Measures and Presentation" section within the enclosed management's discussion and analysis of the Corporation for further disclosure concerning non-IFRS financial measures.

Power Financial Corporation

For the period ended September 30, 2018

Third Quarter

Net earnings attributable to common shareholders were \$523 million or \$0.74 per share, compared with \$463 million or \$0.65 per share in 2017.

Adjusted net earnings attributable to common shareholders were \$578 million or \$0.81 per share, compared with \$465 million or \$0.65 per share in 2017.

Other items, not included in adjusted net earnings, resulted in a charge of \$55 million and consisted of Power Financial's share of Lifeco and IGM's other items as indicated above.

Nine Months

Net earnings attributable to common shareholders were \$1,767 million or \$2.48 per share, compared with \$1,492 million or \$2.09 per share in 2017.

Adjusted net earnings attributable to common shareholders were \$1,822 million or \$2.55 per share, compared with \$1,588 million or \$2.22 per share in 2017.

Sagard Investment Funds, China AMC and Other Investments

For the period ended September 30, 2018

Third Quarter

Loss from investments was \$28 million, compared with income of \$219 million in 2017. Third quarter income from investments in 2018 includes a loss from Sagard China related to Chinese equity market declines. Income from investments in the third quarter of 2017 included a gain of \$174 million on China AMC.

Nine Months

Income from investments was \$184 million, compared with \$306 million in 2017. Income from investments in the nine-month period ended September 30, 2018 also included gains on the disposal by Sagard Europe of two investments in the first quarter of 2018. Income from investments in 2017 also included a gain on the disposal of the Corporation's interest in an investment fund in the second quarter of 2017.

On behalf of the Board of Directors,

Signed,

Paul Desmarais, Jr., o.c., o.g.
Chairman and
Co-Chief Executive Officer

Signed,

André Desmarais, o.c., o.g.
Deputy Chairman, President and
Co-Chief Executive Officer

November 8, 2018

Power Corporation of Canada

TABLE OF CONTENTS

This document contains management's discussion and analysis of the financial condition, financial performance and cash flows of Power Corporation of Canada (the Corporation) for the three months and nine months ended September 30, 2018 and the unaudited interim condensed consolidated financial statements of the Corporation as at and for the three months and nine months ended September 30, 2018. This document has been filed with the securities regulatory authorities in each of the provinces and territories of Canada and mailed to requesting shareholders of the Corporation in accordance with applicable securities laws.

Power Corporation of Canada

PART A

Power Financial Corporation

PART B

Great-West Lifeco Inc.

PART C

IGM Financial Inc.

PART D

Pargesa Holding SA

PART E

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Power Corporation of Canada

PART A

Management's Discussion and Analysis

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Financial Statements and Notes

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Power Corporation of Canada Management's Discussion and Analysis

NOVEMBER 8, 2018

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

The following presents Management's Discussion and Analysis (MD&A) of the unaudited interim condensed consolidated financial condition and financial performance of Power Corporation of Canada (Power Corporation or the Corporation) (TSX: POW), a public corporation, for the nine-month and three-month periods ended September 30, 2018. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of Power Corporation and notes thereto for the nine-month and three-month periods ended September 30, 2018 (the Interim Consolidated Financial Statements), the MD&A for the year ended December 31, 2017 (the 2017 Annual MD&A), and the audited consolidated financial statements and notes thereto for the year ended December 31, 2017 (the 2017 Consolidated Financial Statements). Additional information relating to Power Corporation, including its Annual Information Form, may be found on the Corporation's website at www.powercorporation.com and on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS · Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's current expectations, or with respect to disclosure regarding the Corporation's public subsidiaries, reflect such subsidiaries' disclosed current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, fluctuations in interest rates, inflation and foreign exchange rates, monetary policies, business investment and the health of local and global equity and capital markets, management of market liquidity and funding risks, risks related to investments in private companies and illiquid securities, risks associated with financial instruments, changes in accounting policies and methods used to report financial condition (including uncertainties associated with significant judgments, estimates and assumptions), the effect of applying future accounting changes, business competition, operational and reputational risks, technological changes, cybersecurity risks, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including that the list of factors in the previous paragraph, collectively, are not expected to have a material impact on the Corporation and its subsidiaries. While the Corporation considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

Other than as specifically required by applicable Canadian law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Corporation's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including this MD&A and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available at www.sedar.com.

The following abbreviations are used throughout this report:

adidas	adidas AG	Ontex	Ontex N.V.
BME	Madrid Stock Exchange	PanAgora	PanAgora Asset Management, Inc.
Burberry	Burberry Group plc	Pargesa	Pargesa Holding SA
Canada Life	The Canada Life Assurance Company	Parjointco	Parjointco N.V.
China AMC	China Asset Management Co., Ltd	Parques	Parques Reunidos Servicios Centrales, S.A.
Eagle Creek	Eagle Creek Renewable Energy, LLC	Peak	Peak Achievement Athletics Inc.
EBR	Euronext Brussels	Portag3	Portag3 Ventures Limited Partnership
EPA	Euronext Paris	Potentia or Potentia Renewables	Potentia Renewables Inc.
GBL	Groupe Bruxelles Lambert	Power Energy	Power Energy Corporation
GEA	GEA Group	Power Energy Eagle Creek	Power Energy Eagle Creek LLP
Great-West Financial or Great-West Life & Annuity	Great-West Life & Annuity Insurance Company	Power Financial	Power Financial Corporation
Great-West Life	The Great-West Life Assurance Company	Putnam	Putnam Investments, LLC
IFRS	International Financial Reporting Standards	Retirement Advantage	MGM Advantage Holdings Ltd.
IGM or IGM Financial	IGM Financial Inc.	Sagard Holdings	Sagard Holdings ULC
IG Wealth Management	Investors Group Inc.	Sagard Investment Funds	Sagard Europe, Sagard Holdings and Sagard China
IntegraMed	IntegraMed America, Inc.	SGS	SGS SA
Investment Planning Counsel	Investment Planning Counsel Inc.	SIX	Swiss Stock Exchange
Irish Life	Irish Life Group Limited	Square Victoria Communications Group or SVCG	Square Victoria Communications Group Inc.
LafargeHolcim	LafargeHolcim Ltd	Total	Total SA
La Presse	La Presse, Itée	Umicore	Umicore, NV/SA
Lifeco	Great-West Lifeco Inc.	Vein Clinics	Vein Clinics of America, Inc.
Lion or Lion Electric	The Lion Electric Co.	Wealthsimple	Wealthsimple Financial Corp.
London Life	London Life Insurance Company	XETR	XETRA Stock Exchange
Lumenpulse	Lumenpulse Group Inc.		
Mackenzie or Mackenzie Investments	Mackenzie Financial Corporation		

Organization of the Interim MD&A

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Overview

POWER CORPORATION OF CANADA

Incorporated in 1925, Power Corporation, a family-controlled public company, is a diversified international management and holding company with interests in the financial services, asset management, sustainable and renewable energy, and other business sectors in North America, Europe and Asia. Its principal asset is a controlling interest in Power Financial, which in turn controls Lifeco and IGM. Power Financial also holds jointly with the Frère Group of Belgium a controlling interest in Pargesa.

Power Corporation conducts investment activities, built upon a network of deep and long-standing relationships, to provide superior returns on a diversified basis. The investment activities include the Sagard Investment Funds and interests in China resulting from more than 40 years of engagement.

Power Corporation adheres to four overriding investing principles with the objective of achieving sound long-term investment diversification and sustainable value-creation for its shareholders:

- Long-term perspective
- Leading franchises with attractive growth profiles
- Strong governance oversight
- Prudent approach to risk management

Power Corporation is anchored through its core investment in Power Financial, which historically has provided stable cash flows through its regular dividends. Power Corporation's value creation strategy is designed to capitalize on its long-term relationships to achieve superior investment returns and stable cash flows. As part of Power Corporation's diversification strategy, significant investments have been made in non-financial sector investment platforms. Historically many of these investments were held in funds managed by third parties. Since the early 2000s, Power Corporation has been investing and developing its own investment platforms:

- Sagard Europe funds invest through significant influence or controlling positions in mid-size European private companies that have high growth potential and superior management talent. Pargesa, GBL and third parties also invest in the Sagard Europe funds.
- Sagard Holdings invests in equity and debt capital of middle-market companies in the U.S. and Canada and migrates its investments in companies that have superior growth and return profiles to controlled positions. Sagard Holdings launched Sagard Credit Partners LP in December 2017, a fund which provides credit capital directly to public and private middle-market companies across Canada and the U.S. Third parties also invest in Sagard Credit Partners LP.
- Sagard China holds minority positions in Chinese and Hong Kong publicly listed companies and seeks absolute return with low volatility. It is a long-term investor and holds a portfolio of selected stocks.
- Power Energy actively manages investments by applying the Corporation's principles of collaboration and building trusted relationships in industries that benefit from the global energy transformation. It is rapidly expanding its footprint in businesses with stable long-term cash flows.

The Corporation's multi-generational relationship has allowed access to further investment opportunities in China, such as through its investment in China AMC. China AMC, one of the largest asset managers in China, diversifies the Corporation's asset base and creates strategic investment opportunities with other asset managers within the Power group of companies.

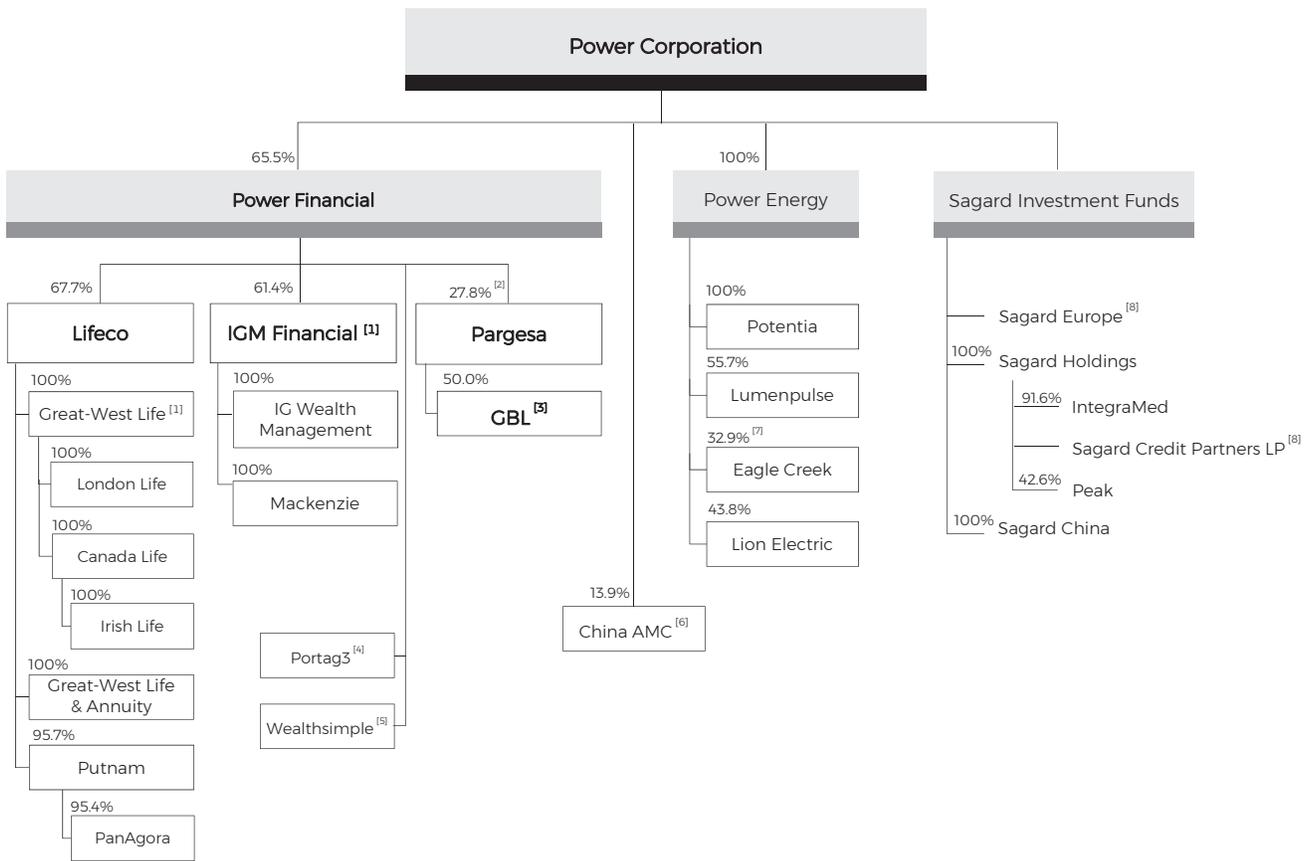
Organization of the MD&A

The Corporation's MD&A consists of five parts:

- Part A – Power Corporation, presented on a consolidated and non-consolidated basis;
- Part B – Power Financial's interim MD&A, presented on a consolidated and non-consolidated basis, as prepared and disclosed by Power Financial in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from Power Financial's website (www.powerfinancial.com);
- Part C – Lifeco's interim MD&A, as prepared and disclosed by Lifeco in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from Lifeco's website (www.greatwestlifeco.com);
- Part D – IGM's interim MD&A, as prepared and disclosed by IGM in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from IGM's website (www.igmfinc.com);
- Part E – Pargesa's financial results, derived from publicly disclosed information, as issued by Pargesa in its quarterly press release. Further information on Pargesa's results is available on its website (www.pargesa.ch).

Power Financial (TSX: PWF), Lifeco (TSX: GWO) and IGM (TSX: IGM) are public companies listed on the Toronto Stock Exchange. Pargesa is a public company listed on the Swiss Stock Exchange (SIX: PARC). Market capitalizations reported in the following sections are at September 30, 2018.

The following chart reflects the economic interest held by the Corporation in entities at September 30, 2018, which include Power Financial's operating companies (Lifeco, IGM, Wealthsimple and jointly controlled Pargesa), Power Energy, China AMC and the Sagard Investment Funds. Sagard Holdings holds in its portfolio a controlling interest in IntegraMed.



In bold: Publicly listed holdings

[1] Great-West Life holds a 3.8% interest in IGM, and IGM holds a 4.0% interest in Lifeco.

[2] Held through Parjointco, a jointly controlled corporation (50%).

[3] Refer to the "Pargesa and GBL" section for a list of investments in public companies.

[4] Power Financial directly holds a 63% interest, and Lifeco and IGM also hold equal interests of 18.5%, in Portag3.

[5] Power Financial directly holds a 14.7% interest, and Portag3 and IGM also hold interests of 23.6% and 43.3%, respectively, in Wealthsimple.

[6] Mackenzie also holds a 13.9% interest in China AMC.

[7] Power Energy holds a 60% interest in Power Energy Eagle Creek, which holds a 54.8% interest in Eagle Creek.

[8] See page 9 for the Corporation's interest in the Sagard Europe funds and Sagard Holdings' interest in Sagard Credit Partners LP.

POWER FINANCIAL

Power Financial, TSX: PWF; market capitalization of \$21.1 billion, is a diversified international management and holding company with interests substantially in the financial services sector in Canada, the U.S. and Europe, through its controlling interests in Lifeco, IGM and Wealthsimple. It also has significant holdings in global industrial and services companies based in Europe through its investment in Pargesa. At November 8, 2018, Power Corporation held 65.5% of the equity and voting interests in Power Financial.

See Part B of this MD&A for additional information on Power Financial.

Lifeco

Great-West Lifeco Inc., TSX: GWO; market capitalization of \$31.0 billion, is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Lifeco has operations in Canada, the United States and Europe through Great-West Life, London Life, Canada Life, Great-West Financial, Putnam and Irish Life. For reporting purposes, Lifeco has four reportable segments: Canada, the United States, Europe and Corporate, which reflect geographic lines as well as the management and corporate structure of the companies.

In Canada, through the Individual Customer and Group Customer business units, Lifeco offers a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, including life, disability and critical illness insurance products as well as wealth accumulation, annuity and other speciality products.

The United States segment operates two business units, Financial Services and Asset Management. Its Financial Services unit serves all segments of the employer-sponsored retirement plan market and offers employer-sponsored defined contribution plans, individual retirement accounts, enrollment services, communication materials, investment options and education services as well as fund management, investment and advisory services. The Asset Management unit, Putnam, provides investment management, certain administrative functions, and distribution services as well as offers a broad range of investment products, including equity, fixed income, absolute return and alternative strategies. PanAgora, a Putnam affiliate, offers a broad range of investment solutions using sophisticated quantitative techniques.

The European segment is comprised of two distinct business units, Insurance & Annuities and Reinsurance, which offer protection and wealth management products, including payout annuity products and reinsurance products.

At September 30, 2018, Power Financial and IGM held interests of 67.7% and 4.0%, respectively, in Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. The *Insurance Companies Act* limits voting rights in life insurance companies to 65%.

See Part C of this MD&A for additional information on Lifeco.

IGM Financial

IGM Financial Inc., TSX: IGM; market capitalization of \$8.5 billion, is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly, primarily within the advice segment of the financial services market. Its activities are carried out principally through its subsidiaries IG Wealth Management, Mackenzie Investments and Investment Planning Counsel.

In the third quarter, IGM announced that it has rebranded Investors Group as IG Wealth Management, reflecting its central focus on helping clients grow their wealth. The firm also announced the launch of the IG Living Plan™, a holistic, client-centric approach to financial planning that reflects the evolving needs, goals and aspirations of Canadian families and individuals. The IG Living Plan™ provides a single, integrated view of all aspects of a client's finances including retirement and estate planning, investments, and tax strategies, creating a truly synchronized and comprehensive plan.

IG Wealth Management offers an exclusive family of mutual funds and other investment vehicles, and a wide range of insurance, securities, mortgage products and other financial services. IG Wealth Management provides its services through its exclusive network of consultants across Canada. It strives to distinguish itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships.

Mackenzie Investments is an investment management firm providing investment advisory and related services through multiple distribution channels: Retail, Strategic Alliances and Institutional. Mackenzie distributes its products and services primarily through a diversified distribution network of third-party financial advisors. Mackenzie seeks to be Canada's preferred global asset management solutions provider and business partner.

Investment Planning Counsel is an independent distributor of financial products, services and advice in Canada.

At September 30, 2018, Power Financial and Great-West Life, a subsidiary of Lifeco, held interests of 61.4% and 3.8%, respectively, in IGM's common shares.

See Part D of this MD&A for additional information on IGM.

Pargesa and GBL

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère Group each hold a 50% interest in Parjointco. At September 30, 2018, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

Pargesa, SIX: PARG; market capitalization of SF6.7 billion, is a holding company, which, at September 30, 2018, held a 50% interest in GBL, representing 50.7% of the voting rights. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange.

GBL, EBR: GBLB; market capitalization of €14.6 billion, is one of the largest listed holding companies in Europe. As a holding company focused on long-term value creation, GBL relies on a stable, family shareholder base. Its portfolio is comprised of global industrial and services companies, leaders in their markets, in which GBL plays its role of professional shareholder.

At September 30, 2018, GBL's portfolio was mainly comprised of investments in the following publicly traded companies:

- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ Imerys (EPA: NK) – mineral-based specialty solutions for industry ▪ adidas (XETR: ADS) – design and distribution of sportswear ▪ SGS (SIX: SCSN) – testing, inspection and certification ▪ Pernod Ricard (EPA: RI) – wines and spirits ▪ LafargeHolcim (SIX: HOLN and EPA: LHN) – cement, aggregates and concrete | <ul style="list-style-type: none"> ▪ Umicore (EBR: UMI) – materials technology and recycling of precious metals ▪ Total (EPA: FP) – oil, gas and chemical industries ▪ GEA (XETR: G1A) – supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors ▪ Ontex (EBR: ONTEX) – disposable hygiene products ▪ Parques (BME: PQR) – operation of regional leisure parks |
|---|---|

In addition, through its subsidiary Sienna Capital, GBL is developing a portfolio of private equity, debt and thematic funds.

At September 30, 2018, Pargesa's net asset value was SF10,723 million, compared with SF10,851 million at December 31, 2017. GBL's net asset value at September 30, 2018 was €19,211 million compared with €18,888 million at December 31, 2017.

See Part E of this MD&A for additional information on Pargesa.

Portag3 and Wealthsimple

Power Financial together with IGM and Lifeco (the group), controls Portag3, an investment fund dedicated to backing innovative financial services companies. Portag3 holds a 23.6% equity interest in Wealthsimple, a technology-driven investment manager with assets under administration of \$3.2 billion at September 30, 2018 (\$1.7 billion at December 31, 2017). In addition to the interest held indirectly through Portag3, Power Financial and IGM also held, at September 30, 2018, equity interests in Wealthsimple of 14.7% and 43.3%, respectively.

During the first two quarters of 2018, Power Financial and IGM invested \$24 million and \$51 million, respectively, in Wealthsimple. At September 30, 2018, the group has invested \$193 million in Wealthsimple.

On October 30, 2018, Portag3 announced the initial closing of Portag3 Ventures II LP, its second fintech venture fund focused on early stage investments in the global financial technology sector. Total capital commitments amount to \$198 million of which Power Financial, Lifeco and IGM have each committed \$33 million. The fair value of the investments held by the fund at September 30, 2018 was \$46 million.

OTHER SUBSIDIARIES

Other subsidiaries are comprised of Power Energy, SVCG and a controlled portfolio investment.

Power Energy

Established in 2012, Power Energy is a wholly owned subsidiary that actively manages investments in the sustainable and renewable energy sector with the goal of building and owning, over the long term, companies that can generate growing and stable cash flows. Power Energy invests in companies that benefit from the global energy transformation and currently has invested in companies that develop, own and operate solar, hydro and wind generating assets in North America as well as leading manufacturers of sustainable technologies. Currently, investments are as follows:

- **Potentia Renewables:** Potentia is a renewable energy generating company, active in North America and the Caribbean, with approximately 150 megawatts (MW) of operating solar assets and over 2 gigawatts (GW) of solar and wind development projects. Total assets of Potentia were \$705 million at September 30, 2018.

In October 2018, Potentia announced that it was selected by SaskPower in its latest wind energy procurement process. Potentia and SaskPower have signed a 25-year power purchase agreement for 200 MW of wind electricity. Commercial operation may commence as early as 2021.

- **Eagle Creek Renewable Energy:** Power Energy indirectly holds a 32.9% interest in Eagle Creek. Eagle Creek owns and operates 226 MW of hydroelectric facilities in the United States.

In August 2018, Power Energy, through its indirect subsidiary Power Energy Eagle Creek LLP, entered into an agreement to dispose of its interest in Eagle Creek. The transaction is subject to regulatory approval and other customary closing conditions and is expected to be concluded in the fourth quarter of 2018. The carrying value of the investment in Eagle Creek has been classified as an asset held for sale at September 30, 2018.

- **Lumenpulse:** Power Energy holds a controlling interest of 55.7% in Lumenpulse. Lumenpulse is a leading manufacturer of high-performance, specification-grade LED lighting solutions.

On October 12, 2018, Lumenpulse completed the acquisition of 80% of the equity interest of Sternberg Lanterns Inc. (Sternberg Lighting), an Illinois-based employee-owned manufacturer of architectural outdoor and area LED lighting solutions.

Subsequent to the quarter end, Power Energy invested an additional \$41 million in Lumenpulse and now holds an interest of 60.5%.

- **Lion Electric:** Power Energy holds a 43.8% interest in Lion Electric. Lion is an innovative company manufacturing zero-emission vehicles sold throughout North America.

To date, Power Energy has invested \$695 million in these four companies.

Square Victoria Communications Group

Power Corporation, through Square Victoria Communications Group, owned La Presse, a French-language news media company which provides content on several digital platforms. These include LaPresse+, a digital edition for tablets, the website LaPresse.ca and La Presse Mobile, an application for smartphones. La Presse is known for its distinctive, rich and diversified coverage of national and international news and events.

On May 8, 2018, La Presse announced its intention to adopt a not-for-profit structure that would benefit from a financial contribution of \$50 million from Power Corporation. This change in structure required the repeal of a provision of a Private Act adopted in 1967 regarding the ownership of La Presse as well as the unions' collaboration with respect to the retention of certain past retirement plan obligations. The repeal of the legislative provision was adopted, and was given assent on June 15, 2018. The transaction consisted of a transfer of net assets to the new not-for-profit structure and closed on July 14, 2018. As part of this transaction, Power Corporation has retained responsibility for the funding, on a going-concern basis, of the retirement obligations accrued at the transaction date. The Corporation recognized a loss on the divestiture of \$54 million, including the financial contribution of \$50 million mentioned above, which has been included in Other items of the corporate operations in the quarter.

Controlled Portfolio Investment

At September 30, 2018, Sagard Holdings held a controlling interest in IntegraMed (91.6%), a private healthcare services company.

SAGARD INVESTMENT FUNDS

Since the launch of the first Sagard fund in 2002, Power Corporation has continued to develop investment platforms and operate equity investment funds in three principal geographies: Sagard Europe, Sagard Holdings (North America), and Sagard China. The Sagard platforms are managed locally by experienced investment professionals who have an in-depth knowledge of the local public and private markets and benefit from collaboration within the Power group of companies. Power Corporation's investment fund activities: (i) leverage its extensive global network and business relationships; (ii) seek to achieve long-term capital appreciation through fundamental investment analysis; and (iii) seek opportunities to acquire controlling interests in its most promising investments. Each of the Sagard funds adheres to Power Corporation's investment philosophy and governance model.

The Sagard investment platforms act as investment managers for investment funds in which third-party investors, the Corporation and associated companies can participate. The Corporation controls a fund when it is exposed, or has rights, to variable returns from its involvement with the fund and has the ability to affect those returns through its power to direct the relevant activities of the fund.

The evaluation of control is based on a determination of the relevant activities and how investment and other decisions are made by the fund. The investment manager does not control an investee when it is primarily engaged to act on behalf and for the benefit of another party or parties. The following factors are considered in making this assessment:

- Scope of manager's decision-making authority;
- Rights held by other parties including limited partners; and
- Exposure to variability of returns from the interest that it holds in the fund including management fees and performance fees (carried interest).

The following table summarizes the Corporation's interests in each of the funds managed by its investment platforms:

September 30, 2018 (in millions; except as otherwise noted)	Sagard Europe		Sagard Holdings		Sagard China
	Sagard II	Sagard 3	Sagard Capital Partners LP	Sagard Credit Partners LP	A, B, H and ADR equities
	€	€	US\$	US\$	US\$
Fund size	748	808	600	456	200
Unfunded commitment	35	393	100	362	-
Original commitment					
Corporation	154	302	600	100	200
Third parties and associated companies ^[1]	594	506	-	356	-
Interest (%)					
Corporation	22.0	37.4	100.0	21.9	100.0
Third parties and associated companies	78.0	62.6	-	78.1	-
Nature of the fund	Portfolio Investment	Portfolio Investment	Controlling interest	Controlling interest	Controlling interest
Accounting method	Available for sale	Available for sale	Consolidation	Consolidation	Consolidation

[1] Includes commitments of Pargesa (€37 million in Sagard II), GBL (€113 million in Sagard II and €128 million in Sagard 3), as well as commitments from management.

Sagard Europe

Sagard Europe, headquartered in Paris, is managed by Sagard SAS, a wholly owned subsidiary of the Corporation. Sagard Europe currently operates the Sagard II and Sagard 3 funds. These funds invest in mid-sized private companies based in France, Belgium, Luxembourg and Switzerland.

The Corporation's interests in these two active funds are classified as available-for-sale investments.

Sagard Europe funds:

September 30, 2018 (in millions; in Canadian dollars except as otherwise noted)	Sagard II	Sagard 3
Fund size	€748	€808
Corporation's commitment ^[1]	€154	€302
Interest (%)	22.0	37.3
Corporation's outstanding commitment at September 30, 2018	€5	€143
Corporation's investment to date	217	382
Corporation's share of distributions to date	215	239
Fair value of the Corporation's investment at September 30, 2018	91	312

[1] Excludes commitments of Pargesa (€37 million in Sagard II), and GBL (€113 million in Sagard II and €218 million in Sagard 3).

The Corporation has invested \$774 million to date in the Sagard Europe funds (including Sagard I) and has received distributions of \$874 million. At September 30, 2018, the fair value of the Corporation's investments in the Sagard Europe funds, excluding the Corporation's share of investments held indirectly through Pargesa and GBL, was \$403 million, compared with \$499 million at December 31, 2017. The change in the fair value of the funds is mainly due to distributions received in the first quarter of 2018.

Sagard Holdings

Sagard Holdings, a wholly owned investment vehicle of the Corporation which was launched in 2005, invests in the equity and debt capital of middle-market companies in the U.S. and Canada. Sagard Holdings holds a 91.6% interest in IntegraMed, a private healthcare services company operating a network of fertility clinics in North America.

At September 30, 2018, the Corporation, through Sagard Holdings, held a 42.6% equity interest and 50% of the voting rights in Peak. Peak designs and markets sports equipment and apparel for ice hockey, baseball, softball and lacrosse under iconic brands including Bauer and Easton. The Corporation's investment is accounted for using the equity method.

Sagard Credit Partners LP has total commitments of US\$456 million, of which Sagard Holdings has committed US\$100 million and its unfunded commitment is US\$79 million at September 30, 2018. Sagard Holdings, through Sagard Credit Partners GP, has determined that it has control of the Fund as it has the power to direct the relevant activities and is exposed to significant variable returns based on the performance of the Fund. Sagard Credit Partners LP held investments of \$171 million at September 30, 2018.

At September 30, 2018, the Corporation had invested \$616 million in Sagard Holdings and has received distributions of \$64 million. At September 30, 2018, the fair value of Sagard Holdings' investments, including cash, was \$781 million, compared with \$824 million at December 31, 2017.

Sagard China

Power Corporation operates as a Qualified Foreign Institutional Investor (QFII) in the Chinese “A” shares market. In addition, the Corporation invests in Chinese companies listed on the Hong Kong Stock Exchange (“H” shares) and the Shenzhen or Shanghai Stock Exchange (“B” shares). During the second quarter, Sagard China started investing in American Depositary Receipts (“ADRs”). Collectively, the Chinese “A”, “B”, “H” and “ADR” share investment activities operate as Sagard China.

Since its inception in 2005, the Corporation has invested \$316 million in Sagard China and has received distributions of \$19 million.

Fair value	September 30, 2018	December 31, 2017
Investments		
Money market funds	43	42
A, B, H, and ADR equities	449	616
Cash	211	126
Total portfolio ^[1]	703	784

[1] The decrease in the fair value of the portfolio is due to a significant decline in the Chinese equity markets in 2018.

CHINA AMC

Founded in 1998 as one of the first fund management companies in China, China AMC has developed and maintained its position among the market leaders in China’s asset management industry.

Each of the Corporation and Mackenzie, a subsidiary of IGM, directly hold equal interests of 13.9% in China AMC. The Corporation and IGM hold a combined 27.8% interest in China AMC; they have significant influence and account for their respective interests as an associate using the equity method.

The investment in China AMC provides the potential to leverage the group’s extensive knowledge in wealth management and distribution. Subsidiaries within the Power group of companies benefit from the strategic relationship to help identify opportunities to work together on developing products and future subadvisory relationships.

Basis of Presentation

IFRS FINANCIAL MEASURES AND PRESENTATION

The Interim Consolidated Financial Statements of the Corporation have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* (IAS 34) and are presented in Canadian dollars.

Consolidated financial statements present, as a single economic entity, the assets, liabilities, revenues, expenses and cash flows of the parent company and its subsidiaries. The consolidated financial statements present the financial results of Power Corporation (parent), its subsidiaries, and other controlled portfolio investments after the elimination of intercompany balances and transactions.

The financial statements of the Corporation are consolidated with those of Power Financial which include the results of Lifeco, IGM and Wealthsimple, which are controlled and consolidated by Power Financial.

Power Financial's investment in Pargesa is held through Parjointco. Parjointco is a holding company jointly controlled by Power Financial and the Frère Group and is accounted for using the equity method.

Under the equity method, the investment is initially recognized at cost and adjusted thereafter for changes in the share of net earnings (losses), other comprehensive income (loss) and changes in equity. The investment is reduced by the amount of dividends received.

The following table summarizes the accounting presentation for the Corporation's holdings:

Control	Accounting Method	Earnings and Other Comprehensive Income	Impairment Testing	Impairment Reversal
Controlling interest in the entity	Consolidation	Consolidated with non-controlling interests	Goodwill and indefinite life intangible assets are tested at least annually for impairment	Impairment of goodwill cannot be reversed Impairment of intangible assets is reversed if there is evidence of recovery of value
Significant influence or joint control	Equity method	Corporation's share of earnings and other comprehensive income	Entire investment is tested for impairment	Reversed if there is evidence the investment has recovered its value
Non-controlled portfolio investments	Available for sale (AFS)	Earnings consist of dividends received and gains or losses on disposals The investments are marked to market through other comprehensive income Earnings are reduced by impairment charges, if any	Impairment testing is done at the individual investment level A significant or prolonged decline in the value of the investment results in an impairment charge A share price decrease subsequent to an impairment charge leads to a further impairment	A subsequent recovery of value does not result in a reversal

At September 30, 2018, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
Power Financial	65.5	Controlling interest	Consolidation
Lifeco ^[1]	67.7	Controlling interest	Consolidation
IGM ^[2]	61.4	Controlling interest	Consolidation
Pargesa ^[3]	27.8	Joint control	Equity method
Portag3 ^[4]	63.0	Controlling interest	Consolidation
Wealthsimple ^[5]	14.7	Controlling interest	Consolidation
Power Energy	100.0	Controlling interest	Consolidation
Potentia	100.0	Controlling interest	Consolidation
Lumenpulse	55.7	Controlling interest	Consolidation
Eagle Creek	32.9	Joint control	Equity method
Lion	43.8	Significant influence	Equity method
China AMC^[6]	13.9	Significant influence	Equity method

[1] IGM also holds a 4.0% interest in Lifeco.

[2] Great-West Life also holds a 3.8% interest in IGM.

[3] Held through Parjointco, a jointly controlled corporation (50%).

[4] Lifeco and IGM also hold equal interests of 18.5% in Portag3.

[5] Portag3 and IGM also hold interests of 23.6% and 43.3%, respectively, in Wealthsimple.

[6] IGM, through Mackenzie, also holds an interest of 13.9% in China AMC.

At September 30, 2018, Pargesa's publicly listed holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
GBL	50.0	Controlling interest	Consolidation
Imerys	53.8	Controlling interest	Consolidation
adidas	7.5	Portfolio investment	Available for sale
SGS	16.6	Portfolio investment	Available for sale
Pernod Ricard	7.5	Portfolio investment	Available for sale
LafargeHolcim	9.4	Portfolio investment	Available for sale
Umicore	16.9	Portfolio investment	Available for sale
Total	0.6	Portfolio investment	Available for sale
GEA	7.3	Portfolio investment	Available for sale
Ontex	20.0	Portfolio investment	Available for sale
Parques	21.2	Significant influence	Equity method
Other investments	< 5.0	Portfolio investments	Available for sale

At September 30, 2018, the holdings of the Sagard Investment Funds were as follows:

Sagard Investment Funds	% economic interest	Nature of investment	Accounting method
Sagard Europe			
Sagard II	22.0	Portfolio investment	Available for sale
Sagard 3	37.3	Portfolio investment	Available for sale
Sagard Holdings	100.0		
IntegraMed	91.6	Controlling interest	Consolidation
Peak	42.6	Joint control	Equity method
Sagard Credit Partners LP	21.9	Controlling interest	Consolidation
Investments	< 50.0	Significant influence or portfolio investments	Equity method or available for sale
Sagard China	100.0		
Investments	< 5.0	Portfolio investments	Available for sale

This summary of accounting presentation should be read in conjunction with the following notes to the Corporation's 2017 Consolidated Financial Statements:

- Basis of presentation and summary of significant accounting policies (Note 2);
- Investments (Note 5);
- Investments in jointly controlled corporations and associates (Note 7);
- Goodwill and intangible assets (Note 10); and
- Non-controlling interests (Note 19).

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

This MD&A presents and discusses financial measures which are not in accordance with IFRS. Management uses these financial measures in its presentation and analysis of the financial performance of Power Corporation, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. The non-IFRS financial measures used in the MD&A are defined as follows:

Non-IFRS financial measure	Definition	Purpose
Non-consolidated basis of presentation	Power Corporation's interests in Power Financial and its controlling interests in Lifeco, IGM, Portag3 and Wealthsimple as well as other subsidiaries are accounted for using the equity method.	Used by the Corporation to present and analyze its results, financial position and cash flows. Presents the holding company's (parent) results separately from the results of its consolidated operating companies. As a holding company, management reviews and assesses the performance of each operating company's contribution to net earnings and adjusted net earnings. This presentation is useful to the reader to assess the impact of the contribution to earnings for each subsidiary.
Adjusted net earnings	Net earnings excluding the impact of Other items.	Assists in the comparison of the current period's results to those of previous periods as items that are not considered to be a part of ongoing operations are excluded.
Other items	After-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Includes the Corporation's share of items presented as other items by a subsidiary or a jointly controlled corporation.	Identifies items that are not considered part of ongoing operations. The exclusion of these items assists management and the reader in assessing current results as these items are not reflective of ongoing operations.
Adjusted net earnings per share	Earnings per share calculated using adjusted net earnings. Adjusted net earnings divided by the weighted average number of participating shares outstanding.	Assists in comparing adjusted net earnings on a per share basis.

These non-IFRS financial measures do not have a standard meaning and may not be comparable to similar measures used by other entities. Reconciliations of the non-IFRS basis of presentation with the presentation in accordance with IFRS are included throughout this MD&A.

RECONCILIATION OF IFRS AND NON-IFRS FINANCIAL MEASURES

The following tables present a reconciliation of net earnings and earnings per share reported in accordance with IFRS to non-IFRS financial measures: adjusted net earnings, other items and adjusted net earnings per share. Adjusted net earnings and adjusted net earnings per share are presented in the section "Non-Consolidated Statements of Earnings":

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Net earnings - IFRS financial measure ^[1]	1,058	1,078	186	347	470
Share of Other items ^[2] , net of tax					
Lifeco	25	69	25	-	-
IGM	11	(6)	11	-	-
Pargesa	-	-	-	-	1
Corporate operations	61	-	61	-	-
	97	63	97	-	1
Adjusted net earnings - Non-IFRS financial measure ^[1]	1,155	1,141	283	347	471

[1] Available to participating shareholders of Power Corporation.

[2] Refer to the section "Other items" for more details on Other items from Lifeco, IGM, Pargesa, and Corporate operations.

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Net earnings per share - IFRS financial measure ^[1]	2.28	2.33	0.40	0.75	1.02
Share of Other items ^[2] , net of tax					
Lifeco	0.06	0.14	0.06	-	-
IGM	0.02	(0.01)	0.02	-	-
Corporate operations	0.13	-	0.13	-	-
	0.21	0.13	0.21	-	-
Adjusted net earnings per share - Non-IFRS financial measure ^[1]	2.49	2.46	0.61	0.75	1.02

[1] Available to participating shareholders of Power Corporation.

[2] Refer to the section "Other items" for more details on Other items from Lifeco, IGM, Pargesa and Corporate operations.

Results of Power Corporation

This section presents:

- the "Consolidated Statements of Earnings in accordance with IFRS"; and
- the "Non-Consolidated Statements of Earnings", which present the contributions of Power Financial, its operating subsidiaries and Pargesa, and the contribution of Other subsidiaries to the net earnings and adjusted net earnings of Power Corporation.

Refer to the section "Non-IFRS Financial Measures and Presentation" for a description of the non-consolidated basis of presentation and a reconciliation of IFRS and non-IFRS financial measures.

CONSOLIDATED STATEMENTS OF EARNINGS IN ACCORDANCE WITH IFRS

Power Corporation's consolidated statements of earnings for the nine months and three months ended September 30, 2018 are presented below. The Corporation's operating segments are Lifeco, IGM and Pargesa. This table reflects the contributions from Power Financial and Other subsidiaries to the net earnings attributable to Power Corporation's participating shareholders.

Consolidated net earnings - Nine months ended

	Lifeco	IGM ^[1]	Pargesa ^[2]	Power Financial		Other ^[4]	Power Corporation	
				Corporate ^[3]	Sub-total		Consolidated net earnings	
							September 30, 2018	September 30, 2017
Revenues								
Premium income, net ^[5]	26,416	-	-	(16)	26,400	-	26,400	25,408
Net investment income	1,518	142	-	(92)	1,568	246	1,814	4,964
Fee income ^[5]	4,399	2,293	-	(73)	6,619	11	6,630	6,300
Other revenues	-	-	-	-	-	593	593	647
Total revenues	32,333	2,435	-	(181)	34,587	850	35,437	37,319
Expenses								
Total paid or credited to policyholders	23,382	-	-	-	23,382	-	23,382	25,656
Commissions ^[5]	1,801	826	-	(47)	2,580	-	2,580	2,792
Operating and administrative expenses ^[5]	4,309	774	-	96	5,179	821	6,000	5,762
Financing charges	151	97	-	13	261	79	340	383
Total expenses	29,643	1,697	-	62	31,402	900	32,302	34,593
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,690	738	-	(243)	3,185	(50)	3,135	2,726
Share of earnings of investments in jointly controlled corporations and associates	-	22	92	8	122	(22)	100	195
Earnings before income taxes	2,690	760	92	(235)	3,307	(72)	3,235	2,921
Income taxes	337	166	-	4	507	3	510	395
Net earnings	2,353	594	92	(239)	2,800	(75)	2,725	2,526
Attributable to								
Non-controlling interests	1,356	372	32	(117)	1,643	(15)	1,628	1,409
Non-participating shareholders	-	-	-	-	-	39	39	39
Participating shareholders of Power Corporation	997	222	60	(122)	1,157	(99)	1,058	1,078
	2,353	594	92	(239)	2,800	(75)	2,725	2,526

[1] Results reported by IGM are in accordance with IFRS 9 and include the transition impact related to the reclassification and remeasurement of certain mortgage loans. As the Corporation has not adopted IFRS 9, this adjustment has been reversed on consolidation by Power Financial and included in "Corporate".

[2] The Corporation's share of earnings of Pargesa includes adjustments in accordance with IAS 39 including the Corporation's share of gains realized on the sale of investments classified as fair value through other comprehensive income (FVOCI) by Pargesa and an impairment charge. These amounts are not included in Pargesa's reported net earnings as it adopted IFRS 9 on January 1, 2018.

[3] "Corporate" is comprised of the results of Portag3 and Wealthsimple, Power Financial's investment activities, corporate operations and consolidation entries.

[4] "Other" is comprised of the Corporation's investment activities and operations and includes results of Other subsidiaries as well as consolidation entries.

[5] Amounts in comparative periods have been reclassified; refer to the section "Adoption of IFRS 15" for more details.

Consolidated net earnings – Three months ended

	Power Financial					Other ^[4]	Power Corporation		
	Lifeco	IGM ^[1]	Pargesa ^[2]	Corporate ^[3]	Sub-total		Consolidated net earnings		
							September 30, 2018	June 30, 2018	September 30, 2017
Revenues									
Premium income, net ^[5]	10,337	-	-	(5)	10,332	-	10,332	7,899	8,293
Net investment income	207	49	-	(36)	220	(21)	199	1,274	745
Fee income ^[5]	1,483	776	-	(24)	2,235	3	2,238	2,223	2,110
Other revenues	-	-	-	-	-	203	203	213	253
Total revenues	12,027	825	-	(65)	12,787	185	12,972	11,609	11,401
Expenses									
Total paid or credited to policyholders	9,046	-	-	-	9,046	-	9,046	7,556	7,567
Commissions ^[5]	611	270	-	(16)	865	-	865	851	839
Operating and administrative expenses ^[5]	1,487	268	-	29	1,784	310	2,094	1,966	1,836
Financing charges	69	38	-	4	111	32	143	68	126
Total expenses	11,213	576	-	17	11,806	342	12,148	10,441	10,368
Earnings before investments in jointly controlled corporations and associates, and income taxes	814	249	-	(82)	981	(157)	824	1,168	1,033
Share of earnings of investments in jointly controlled corporations and associates	-	6	12	-	18	13	31	12	52
Earnings before income taxes	814	255	12	(82)	999	(144)	855	1,180	1,085
Income taxes	107	55	-	1	163	4	167	211	132
Net earnings	707	200	12	(83)	836	(148)	688	969	953
Attributable to									
Non-controlling interests	403	127	5	(40)	495	(6)	489	609	470
Non-participating shareholders	-	-	-	-	-	13	13	13	13
Participating shareholders of Power Corporation	304	73	7	(43)	341	(155)	186	347	470
	707	200	12	(83)	836	(148)	688	969	953

[1] Results reported by IGM are in accordance with IFRS 9 and include the transition impact related to the reclassification and remeasurement of certain mortgage loans. As the Corporation has not adopted IFRS 9, this adjustment has been reversed on consolidation by Power Financial and included in "Corporate".

[2] The Corporation's share of earnings of Pargesa includes adjustments in accordance with IAS 39 including the Corporation's share of gains realized on the sale of investments classified as FVOCI by Pargesa and an impairment charge. These amounts are not included in Pargesa's reported net earnings as it adopted IFRS 9 on January 1, 2018.

[3] "Corporate" is comprised of the results of Portag3 and Wealthsimple, Power Financial's investment activities, corporate operations and consolidation entries.

[4] "Other" is comprised of the Corporation's investment activities and operations and includes results of Other subsidiaries as well as consolidation entries.

[5] Amounts in comparative periods have been reclassified; refer to the section "Adoption of IFRS 15" for more details.

As a holding company, the Corporation evaluates the performance of each segment based on its contribution to net earnings and adjusted net earnings. A discussion of the results of Power Financial, including Lifeco, IGM and Pargesa, is provided in the "Contribution to net earnings and adjusted net earnings" section below.

NON-CONSOLIDATED STATEMENTS OF EARNINGS

In this section, the contributions from Power Financial and other subsidiaries to the net earnings and adjusted net earnings attributable to Power Corporation's participating shareholders are accounted for using the equity method.

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Adjusted net earnings^[1]					
Power Financial					
Lifeco ^[2]	1,022	847	329	369	256
IGM ^[2]	233	211	84	79	67
Pargesa ^[2]	60	84	7	24	24
Corporate operations of Power Financial	(122)	(101)	(43)	(39)	(42)
	1,193	1,041	377	433	305
Other subsidiaries ^[3]	(72)	(65)	(17)	(23)	(10)
	1,121	976	360	410	295
Corporate operations					
Income - Sagard Investment Funds, China AMC and other Investments	184	306	(28)	(15)	219
Operating and other expenses	(111)	(102)	(36)	(35)	(30)
Dividends on non-participating shares	(39)	(39)	(13)	(13)	(13)
Adjusted net earnings^[4]	1,155	1,141	283	347	471
Other items^[5]					
Power Financial					
Lifeco	(25)	(69)	(25)	-	-
IGM	(11)	6	(11)	-	-
Pargesa	-	-	-	-	(1)
	(36)	(63)	(36)	-	(1)
Corporate operations	(61)	-	(61)	-	-
	(97)	(63)	(97)	-	(1)
Net earnings^[4]	1,058	1,078	186	347	470
Earnings per share - basic^[4]					
Adjusted net earnings	2.49	2.46	0.61	0.75	1.02
Other items	(0.21)	(0.13)	(0.21)	-	-
Net earnings	2.28	2.33	0.40	0.75	1.02

[1] For a reconciliation of Power Financial including Lifeco, IGM and Pargesa's non-IFRS adjusted net earnings to their net earnings, refer to the "Contribution to net earnings and adjusted net earnings" section below.

[2] The contributions from Lifeco and IGM include an allocation of the results of Wealthsimple and Portag3, based on their respective interest. Contributions from IGM and Pargesa reflect adjustments in accordance with IAS 39.

[3] Other subsidiaries include earnings (losses) from controlled portfolio investments.

[4] Attributable to participating shareholders.

[5] See "Other items" section below.

2018 vs. 2017	Q3 2018 vs. Q3 2017 and Q2 2018
Net earnings	
\$1,058 million or \$2.28 per share, compared with \$1,078 million or \$2.33 per share in the corresponding period in 2017, a decrease of 2.1% on a per share basis.	\$186 million or \$0.40 per share, compared with \$470 million or \$1.02 per share in the corresponding period in 2017, and \$347 million or \$0.75 per share in the second quarter of 2018.
Adjusted net earnings	
\$1,155 million or \$2.49 per share, compared with \$1,141 million or \$2.46 per share in the corresponding period in 2017, an increase of 1.2% on a per share basis.	\$283 million or \$0.61 per share, compared with \$471 million or \$1.02 per share in the corresponding period in 2017, a decrease of 40.2% on a per share basis and \$347 million or \$0.75 per share in the second quarter of 2018.
Contribution to net earnings and adjusted net earnings from Power Financial and other subsidiaries	
Contribution to net earnings of \$1,085 million, compared with \$913 million in the corresponding period in 2017, an increase of 18.8%.	Contribution to net earnings of \$324 million, compared with \$294 million in the corresponding period in 2017, an increase of 10.2%.
Contribution to adjusted net earnings of \$1,121 million, compared with \$976 million in the corresponding period in 2017, an increase of 14.9%.	Contribution to adjusted net earnings of \$360 million, compared with \$295 million in the corresponding period in 2017, an increase of 22.0%. Contribution to net and adjusted net earnings of \$410 million in the second quarter of 2018.

A discussion of the results of the Corporation is provided in the sections "Contribution to net earnings and adjusted net earnings", "Corporate operations", and "Other items" below.

CONTRIBUTION TO NET EARNINGS AND ADJUSTED NET EARNINGS

POWER FINANCIAL

Contribution to Power Corporation

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Contribution to Power Corporation's ^[1] :					
Adjusted net earnings	1,193	1,041	377	433	305
Other items	(36)	(63)	(36)	-	(1)
Net earnings	1,157	978	341	433	304

[1] Power Corporation's average direct ownership in Power Financial was 65.5% for the quarter ended September 30, 2018.

Adjusted and net earnings as reported by Power Financial

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Adjusted net earnings					
Lifeco	1,560	1,292	503	562	392
IGM	357	322	129	121	102
Pargesa	92	128	12	36	36
	2,009	1,742	644	719	530
Corporate operations of Power Financial	(83)	(55)	(31)	(26)	(28)
Dividends on perpetual preferred shares	(104)	(99)	(35)	(35)	(37)
Adjusted net earnings ^[1]	1,822	1,588	578	658	465
Other items					
Lifeco	(39)	(104)	(39)	-	-
IGM	(16)	8	(16)	-	-
Pargesa	-	-	-	-	(2)
	(55)	(96)	(55)	-	(2)
Net earnings^[1]	1,767	1,492	523	658	463

[1] Attributable to Power Financial common shareholders.

2018 vs. 2017

Q3 2018 vs. Q3 2017 and Q2 2018

Net earnings

\$1,767 million or \$2.48 per share, compared with \$1,492 million or \$2.09 per share in the corresponding period in 2017, an increase of 18.7% on a per share basis.

\$523 million or \$0.74 per share, compared with \$463 million or \$0.65 per share in the corresponding period in 2017, an increase of 13.8% on a per share basis, and \$658 million or \$0.92 per share in the second quarter of 2018.

During the third quarter of 2017, Lifeco recorded a provision of \$175 million after tax relating to the impact of 2017 Atlantic hurricane activity. Power Financial's share of this loss estimate amounts to \$123 million after tax or \$0.17 on a per share basis, in both the three-month and nine-month periods.

Adjusted net earnings

\$1,822 million or \$2.55 per share, compared with \$1,588 million or \$2.22 per share in the corresponding period in 2017, an increase of 14.9% on a per share basis.

\$578 million or \$0.81 per share, compared with \$465 million or \$0.65 per share in the corresponding period in 2017, an increase of 24.6% on a per share basis, and \$658 million or \$0.92 per share in the second quarter of 2018.

For more information on Power Financial's results, see Part B of this MD&A.

The operating segments of Power Financial and Power Corporation are Lifeco, IGM and Pargesa.

LIFECO

Contribution to Power Corporation

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Contribution to Power Corporation's ^[1] :					
Adjusted net earnings					
As reported by Lifeco	1,024	849	331	369	258
Consolidation entries	(2)	(2)	(2)	-	(2)
	1,022	847	329	369	256
Other items	(25)	(69)	(25)	-	-
Net earnings	997	778	304	369	256

[1] Power Financial's average direct ownership in Lifeco and Power Corporation's average direct ownership in Power Financial were 67.7% and 65.5%, respectively, for the quarter ended September 30, 2018.

Adjusted and net earnings by segment as reported by Lifeco

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Canada					
Individual Customer	514	427	165	211	141
Group Customer	486	448	150	194	155
Canada Corporate ^[1]	(35)	(13)	-	(71)	-
	965	862	315	334	296
United States					
Financial Services	313	277	121	101	104
Asset Management	(32)	(16)	(8)	(8)	6
U.S. Corporate ^[1]	52	(2)	-	52	-
	333	259	113	145	110
Europe					
Insurance and Annuities	765	697	240	281	233
Reinsurance	288	123	87	97	(41)
Europe Corporate ^[1]	(35)	(7)	(8)	(23)	(7)
	1,018	813	319	355	185
Lifeco Corporate	(9)	(21)	(2)	(3)	(9)
Adjusted net earnings ^[2]	2,307	1,913	745	831	582
Other items ^[1]	(56)	(156)	(56)	-	(1)
Net earnings^[2]	2,251	1,757	689	831	581

[1] Other items represent amounts which have been excluded from the corporate business units of the Canada, U.S. and Europe segments. Refer to the "Other items" section.

[2] Attributable to Lifeco common shareholders.

2018 vs. 2017	Q3 2018 vs. Q3 2017 and Q2 2018
Net earnings	
\$2,251 million or \$2.277 per share, compared with \$1,757 million or \$1.776 per share in the corresponding period in 2017, an increase of 28.2% on a per share basis. Lifeco's net earnings in 2018 include a net positive impact of \$60 million after tax arising from the restructuring of U.S. financing completed in the second quarter, as a consequence of U.S. tax reform and refinancing of certain debt instruments.	\$689 million or \$0.697 per share, compared with \$581 million or \$0.587 per share in the corresponding period in 2017, an increase of 18.7% on a per share basis, and \$831 million or \$0.839 per share in the second quarter of 2018. Lifeco's net earnings in the third quarter of 2017 included a provision of \$175 million after tax related to the impact of 2017 Atlantic hurricane activity, which reduced Lifeco's earnings per common share by \$0.177.
Adjusted net earnings	
\$2,307 million or \$2.333 per share, compared with \$1,913 million or \$1.934 per share in the corresponding period in 2017, an increase of 20.6% on a per share basis.	\$745 million or \$0.754 per share, compared with \$582 million or \$0.589 per share in the corresponding period in 2017, an increase of 28.0% on a per share basis, and \$831 million or \$0.839 per share in the second quarter of 2018.

CANADA

Net earnings for the nine-month period ended September 30, 2018 increased by \$229 million to \$965 million, compared with the corresponding period in 2017. Adjusted net earnings in the nine-month period ended September 30, 2017 were \$862 million, and excluded Other items of \$126 million. There were no Other items in the nine-month period ended September 30, 2018.

Net earnings for the three-month period ended September 30, 2018 increased by \$19 million to \$315 million, compared with the corresponding quarter in 2017. There were no Other items in the three-month period ended September 30, 2017.

Individual Customer

Net earnings for the nine-month period ended September 30, 2018 increased by \$87 million to \$514 million, compared with the same period last year. The increase was primarily due to:

- Higher contributions from insurance contract liability basis changes; and
- More favourable policyholder behaviour experience;
- 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 three-month period ended September 30, 2018 increased by \$24 million to \$165 million, compared with 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;
- Partially offset by lower contributions from investment experience and less favourable mortality experience.

Group Customer

Net earnings for the nine-month period ended September 30, 2018 increased by \$38 million to \$486 million, compared with the same period last year. The increase was primarily due to:

- More favourable morbidity experience;
- Partially offset by lower contributions from investment experience.

Net earnings for the three-month period ended September 30, 2018 decreased by \$5 million to \$150 million, compared with the same quarter last year. The decrease was primarily due to:

- Lower contributions from insurance contract liability basis changes; and
- Lower contributions from investment experience;
- Partially offset by favourable morbidity experience.

UNITED STATES

Net earnings for the nine-month period ended September 30, 2018 increased by \$85 million to \$333 million, compared with the corresponding period in 2017. Adjusted net earnings in the nine-month period ended September 30, 2017 were \$259 million, and excluded Other items of \$11 million. There were no Other items in the nine-month period ended September 30, 2018.

Net earnings for the three-month period ended September 30, 2018 increased by \$3 million to \$113 million, compared with the corresponding quarter in 2017. There were no Other items in the three-month period ended September 30, 2017.

Financial Services

For the nine-month period ended September 30, 2018, net earnings were US\$243 million (C\$313 million), compared with US\$213 million (C\$277 million) in the corresponding period in 2017. The increase of US\$30 million 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;
- Partially offset by lower contributions from investment experience, higher operating expenses and less favourable mortality experience.

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 three-month period ended September 30, 2018, net earnings were US\$93 million (C\$121 million), compared with US\$83 million (C\$104 million) in the corresponding quarter in 2017. The increase of US\$10 million 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;
- Partially offset by less favourable mortality experience and higher operating expenses.

Asset Management

For the nine-month period ended September 30, 2018, net loss was US\$25 million (C\$32 million), compared with a net loss of US\$11 million (C\$16 million) in the corresponding period in 2017. The net loss in the third quarter of 2017 included a US\$7 million recovery related to the sale of a previously impaired investment product. Excluding this item, the net loss increased by US\$7 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 net loss for the nine-month period ended September 30, 2018 also includes financing and other expenses after tax of US\$31 million (C\$39 million). Financing and other expenses were comparable with the corresponding period in 2017 as lower financing costs were mostly offset by the impact of the reduction in the U.S. corporate tax rate.

For the three-month period ended September 30, 2018, net loss was US\$6 million (C\$8 million), compared with net earnings of US\$5 million (C\$6 million) in the corresponding quarter in 2017. Excluding the impact of the sale of an investment product discussed above, the net loss increased by US\$4 million, primarily due to:

- Lower net investment income;
- Partially offset by higher fee income driven by higher average assets under management, lower expenses and lower income taxes, driven by the impact of a reduction in the U.S. corporate tax rate.

The net loss in the third quarter of 2018 also includes financing and other expenses after tax of US\$9 million (C\$12 million), comparable with the corresponding quarter in 2017 as described above.

EUROPE

Net earnings for the nine-month period ended September 30, 2018 increased by \$168 million to \$962 million, compared with the corresponding period in 2017. Adjusted net earnings in the nine-month period ended September 30, 2018 were \$1,018 million, compared with \$813 million in the corresponding period in 2017, and excluded Other items, discussed below, of \$56 million (\$19 million in the corresponding period in 2017).

Net earnings for the three-month period ended September 30, 2018 increased by \$79 million to \$263 million, compared with the corresponding quarter in 2017. Adjusted net earnings in the three-month period ended September 30, 2018 were \$319 million, compared with \$185 million in the corresponding period in 2017, and excluded Other items, discussed below, of \$56 million (\$1 million in the corresponding period in 2017).

Insurance and Annuities

Net earnings for the nine-month period ended September 30, 2018 increased by \$68 million to \$765 million, compared with the same period last year. The increase was primarily due to:

- More favourable mortality and morbidity experience; and
- 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;
- Partially offset by lower contributions from investment experience and a gain on the sale of Lifeco's Allianz Ireland holdings in the first quarter of 2017.

Net earnings for the three-month period ended September 30, 2018 increased by \$7 million to \$240 million, compared with the same quarter last year. The increase was 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.

Reinsurance

Net earnings for the nine-month period ended September 30, 2018 increased by \$165 million to \$288 million, compared with the same period last year. The third quarter of 2017 results included a provision of \$175 million related to the impact of 2017 hurricane activity. Excluding this item, net earnings decreased by \$10 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.

Net earnings for the three-month period ended September 30, 2018 increased by \$128 million to \$87 million, compared with the same quarter last year. Excluding the prior year provision discussed above, net earnings decreased by \$47 million, primarily due to the same reasons as in the nine-month period.

OTHER ITEMS

There were no Other items in the first two quarters of 2018. In the third quarter of 2018, Other items of \$56 million after tax consisted of:

- Restructuring charges related 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 Assurance Society Limited announced during the second quarter of 2018. These restructuring charges reduced Lifeco's net earnings by \$56 million and include the costs of decommissioning the existing U.K. operations' 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. 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 the first three quarters of 2017, Other items were \$156 million, and consisted mainly of:

First quarter

- Restructuring charges of \$28 million related to the Financial Services business in the U.S. segment and integration activities in the Insurance and Annuities business in Europe.

Second quarter

- Restructuring charges of \$127 million mainly related to Lifeco's realignment of its Canadian operations.

Third quarter

- Restructuring charges of \$1 million mainly related to the Irish retail business.

The information above has been derived from Lifeco's interim MD&A; see Part C of this MD&A for additional information on Lifeco's results.

IGM FINANCIAL

Contribution to Power Corporation

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Contribution to Power Corporation's ^[1] :					
Adjusted net earnings					
As reported by IGM	247	216	90	82	70
Consolidation entries ^[2]	(14)	(5)	(6)	(3)	(3)
	233	211	84	79	67
Other items	(11)	6	(11)	-	-
Net earnings	222	217	73	79	67

[1] Power Financial's average direct ownership in IGM and Power Corporation's average direct ownership in Power Financial were 61.4% and 65.5%, respectively, for the quarter ended September 30, 2018.

[2] Contribution to Power Corporation includes an adjustment made by Power Financial in accordance with IAS 39 and the allocation of the results of Wealthsimple and Portag3.

Adjusted and net earnings by segment as reported by IGM (in accordance with IFRS 9)

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
IC Wealth Management	594	554	214	197	181
Mackenzie	143	130	52	49	45
Corporate and other	143	100	50	47	32
Adjusted net earnings (before interest, income taxes, preferred share dividends and other) ^[1]	880	784	316	293	258
Interest expense, income taxes, preferred share dividends and other	(268)	(248)	(93)	(90)	(85)
Adjusted net earnings ^[2]	612	536	223	203	173
Other items ^[3]	(25)	15	(25)	-	-
Net earnings^[2]	587	551	198	203	173

[1] Non-IFRS financial measures described in Part D of this MD&A.

[2] Available to IGM common shareholders.

[3] IGM does not allocate Other items to segments.

2018 vs. 2017

Q3 2018 vs. Q3 2017 and Q2 2018

Net earnings

\$587 million or \$2.44 per share, compared with \$551 million or \$2.29 per share in the corresponding period in 2017, an increase of 6.6% on a per share basis.

\$198 million or \$0.82 per share, compared with \$173 million or \$0.72 per share in the corresponding period in 2017, an increase of 13.9% on a per share basis, and \$203 million or \$0.85 per share in the second quarter of 2018.

Adjusted net earnings

\$612 million or \$2.54 per share, compared with \$536 million or \$2.23 per share in the corresponding period in 2017, an increase of 13.9% on a per share basis.

\$223 million or \$0.92 per share, compared with \$173 million or \$0.72 per share in the corresponding period in 2017, an increase of 27.8% on a per share basis, and \$203 million or \$0.85 per share in the second quarter of 2018.

On January 1, 2018, IGM adopted IFRS 9, *Financial Instruments*. IGM elected not to restate its comparative financial information for the effect of applying IFRS 9. The cumulative impact of applying IFRS 9 has been recognized as an adjustment to the opening retained earnings on January 1, 2018.

Mortgage loans of \$282.6 million previously classified as held for trading were reclassified to amortized cost as a result of IGM's business model and contractual cash flow characteristics assessment. This resulted in a total remeasurement of \$49.7 million due to the reversal of unrealized losses included in the carrying value of the loans and the capitalization of previously expensed mortgage issue costs.

Other investments of \$19.9 million were reclassified from available for sale to fair value through profit or loss (FVPL), and IGM elected to classify other investments of \$262.8 million at fair value through other comprehensive income (FVOCI). These reclassifications had no impact on opening retained earnings.

Power Corporation has deferred the adoption of IFRS 9 and continues to apply IAS 39, *Financial Instruments: Recognition and Measurement*. As such, the contribution to Power Corporation includes an adjustment to reverse the impact of the application of IFRS 9 by IGM.

Adjusted net earnings exclude charges of \$25 million in the nine-month period ended September 30, 2018. These Other items are not allocated to segments. The following is a summary of each segment's net earnings:

IG WEALTH MANAGEMENT

Net earnings increased by \$40 million in the nine-month period ended September 30, 2018, compared with the corresponding period in 2017, due to:

- An increase in income from management fees of \$53 million to \$1,101 million. The increase was primarily due to an increase in average assets under management of 5.4%, partially offset by a slight decline in the average management fee rate;
- Expenses in the nine-month period were \$905 million, a decrease of \$21 million mainly related to a decrease in commission expenses of \$64 million, offset by an increase in asset-based compensation of \$42 million. The decrease in commission expenses was primarily due to the treatment of commission expenses as a result of the adoption of IFRS 15 (refer to the section "Adoption of IFRS 15");
- Partially offset by a decrease in distribution fee income of \$19 million to \$126 million, mainly due to a decrease in distribution fee income from insurance products and lower redemption fees, and a decrease in administration fee income of \$6 million, primarily due to the movement of assets into unbundled products which are not charged certain administration fees and changes in the composition of average assets under management; and
- A decrease in net investment income of \$10 million to \$36 million primarily related to changes in mortgage banking income. Net interest income on securitized loans decreased due to lower margins on the loans as a result of the impact from the adoption of IFRS 9 and gains realized on the sales of residential mortgages decreased as a result of lower sales activity. These decreases were partially offset by lower negative fair value adjustments in 2018 on loans held. Other net investment income increased by \$9.1 million primarily due to the adoption of IFRS 9 where issue costs for securitized loans previously expensed as incurred are now amortized over the life of the related loans.

Net earnings increased by \$33 million in the three-month period ended September 30, 2018, compared with the corresponding quarter in 2017, primarily due to:

- An increase in income from management fees of \$22 million to \$375 million. The increase was primarily due to an increase in total average assets under management of 6.7%;
- An increase in net investment income of \$8 million to \$13 million, primarily due to a decrease in negative fair value adjustments in 2018 on loans held, partially offset by a decrease in net interest income as explained above;
- Expenses in the three-month period were \$297 million, a decrease of \$1 million, in line with the net decrease in the nine-month period described above;

MACKENZIE

Net earnings increased by \$13 million in the nine-month period ended September 30, 2018, compared with the corresponding period in 2017, due to:

- An increase in management fee revenue due to an increase in average assets under management of 10.9%, partially offset by a decline in the average management fee rate;
- An increase in net investment income of \$3 million which primarily relates to returns on proprietary funds; and
- A decrease in expenses of \$2 million due to lower commission expenses as a result of the adoption of IFRS 15. This was offset by an increase in trailing commissions resulting from a period-over-period increase in average mutual fund assets offset, in part, by a decline in the effective trailing commission rate.

POWER CORPORATION OF CANADA

Net earnings increased by \$7 million in the three-month period ended September 30, 2018, compared with the corresponding quarter in 2017, due to:

- An increase in management fee revenue of \$3 million due to an increase in average assets under management of 12.6%, partially offset by a decline in the average management fee rate; and
- A decrease in expenses of \$5 million due to a decrease of commission expenses offset by an increase in trailing commissions as described above. Non-commission expenses decreased by \$4 million and relate to the administration, marketing and management of its assets under management.

ASSETS AND INVESTMENT FUND ASSETS UNDER MANAGEMENT

Total assets under management were as follows:

(In billions of dollars)	September 30, 2018	June 30, 2018	September 30, 2017	June 30, 2017
IG Wealth Management	89.0	88.8	85.2	84.3
Mackenzie ^[1]	67.3	67.0	60.8	60.4
Corporate and other ^[2]	3.4	3.3	4.0	3.9
Total	159.7	159.1	150.0	148.6

[1] Effective October 1, 2017, the Mackenzie segment has been redefined to exclude advisory mandates to IG Wealth Management from assets under management; the comparatives have been restated to reflect this change.

[2] Includes Investment Planning Counsel's assets under management less an adjustment for assets subadvised by Mackenzie on behalf of other segments.

Total average daily investment fund assets under management were as follows:

(In billions of dollars)	2018			2017			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
IG Wealth Management	89.4	88.0	87.8	87.2	83.8	85.0	82.8
Mackenzie ^[1]	59.5	57.9	57.1	55.8	53.4	54.1	52.3
Corporate and other ^[2]	5.1	5.0	5.2	5.1	5.2	5.2	5.0
Total	154.0	150.9	150.1	148.1	142.4	144.3	140.1

[1] Effective October 1, 2017, the Mackenzie segment has been redefined to exclude advisory mandates to IG Wealth Management from assets under management; the comparatives have been restated to reflect this change.

[2] Includes Investment Planning Counsel's assets under management less an adjustment for assets subadvised by Mackenzie on behalf of other segments.

OTHER ITEMS

There were no Other items in the first two quarters of 2018. In the third quarter of 2018, Other items of \$25 million after tax consisted mainly of:

- Restructuring and other charges of \$17 million: resulting from the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve IGM's offerings and operational effectiveness.
- A premium paid of \$8 million: on early redemption of the \$375 million 7.35% debentures on August 10, 2018.

There were no Other items in the first and third quarters of 2017. In the second quarter of 2017, Other items of \$15 million after tax consisted mainly of:

- Restructuring and other charges of \$17 million: severance and termination costs largely associated with the reduction of IGM's regional office footprint.
- Change related to pension plan of \$37 million: favourable revaluation of IGM's registered pension plan obligation reflecting a new policy which limits the possibility of certain benefit increases in the future.
- IGM's proportionate share of Lifeco's Other items of \$5 million.

The information above has been derived from IGM's interim MD&A; see Part D of this MD&A for more information on IGM's results.

PARGESA**Contribution to Power Corporation**

(In millions of Canadian dollars)	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Contribution to Power Corporation's ^[1] :					
Adjusted net earnings					
As reported by Pargesa	62	83	10	37	23
Consolidation entries ^[2]	(2)	1	(3)	(13)	1
	60	84	7	24	24
Other items	-	-	-	-	(1)
Net earnings	60	84	7	24	23

[1] Power Financial's average ownership in Pargesa and Power Corporation's average direct ownership in Power Financial were 27.8% and 65.5%, respectively, for the quarter ended September 30, 2018.

[2] The Corporation has not adopted IFRS 9. The contribution to the Corporation includes an adjustment to account for Pargesa under IAS 39 as described below.

Adjusted and net earnings as reported by Pargesa (in accordance with IFRS 9)

(In millions of Swiss francs)	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Contribution from the portfolio to adjusted net earnings					
Share of earnings of:					
Imerys	100	90	32	37	33
Parques	(3)	-	-	(3)	-
Dividends:					
LafargeHolcim	58	60	-	58	-
SGS	50	46	-	-	-
adidas	21	15	-	21	-
Umicore	18	14	9	9	7
Total	16	15	6	10	5
Pernod Ricard	12	11	-	12	-
GEA	6	1	-	6	-
Ontex	6	5	-	6	-
Other ^[1]	1	5	1	-	3
Contribution from private equity activities and other investment funds	20	124	9	15	64
	305	386	57	171	112
Net financing income (charges)	(21)	(15)	(8)	(7)	(7)
General expenses and taxes	(24)	(23)	(7)	(8)	(7)
Adjusted net earnings ^[2,3]	260	348	42	156	98
Other items	(9)	1	(4)	(4)	(2)
Net earnings^[3]	251	349	38	152	96

[1] Consists of dividends from other investments and Parques. At the end of 2017, the investment in Parques was reclassified from available for sale to an associate and is now accounted for using the equity method.

[2] Described as "Economic operating income" in Part E of this MD&A.

[3] Attributable to Pargesa shareholders.

2018 vs. 2017	Q3 2018 vs. Q3 2017 and Q2 2018
Net earnings	
SF251 million, compared with SF349 million in the corresponding period in 2017, a decrease of 28.1%.	SF38 million, compared with SF96 million in the corresponding period in 2017, a decrease of 60.4%, and SF152 million in the second quarter of 2018.
Adjusted net earnings	
SF260 million, compared with SF348 million in the corresponding period in 2017, a decrease of 25.3%.	SF42 million, compared with SF98 million in the corresponding period in 2017, a decrease of 57.1%, and SF156 million in the second quarter of 2018.

On January 1, 2018, Pargesa adopted IFRS 9, *Financial Instruments*, and reclassified the majority of its publicly traded portfolio, previously accounted for as available-for-sale investments, to investments classified as fair value through other comprehensive income (FVOCI). The FVOCI is an elective classification for equity instruments in which all fair value changes remain permanently in OCI.

Those investments in private equity and other investment funds that were previously accounted for as available-for-sale investments were reclassified to fair value through profit or loss (FVPL). The transition requirements of IFRS 9 require that all unrealized gains and losses on investments previously classified as available for sale remain permanently in equity. Subsequent to January 1, 2018, changes in fair value are recorded in earnings.

As noted above, Power Corporation has deferred the adoption of IFRS 9 and continues to apply IAS 39. The following table presents adjustments to the contribution to Power Corporation in accordance with IAS 39:

(In millions of dollars)	Q3	Q2	2018 Q1	Total
Disposal of Burberry ^[1]	-	12	-	12
Impairment charges on Ontex ^[2]	(1)	(22)	-	(23)
Disposal of private equity funds ^[3]	-	-	14	14
Unrealized gains (losses) on private equity funds ^[4]	(2)	(3)	-	(5)
Total	(3)	(13)	14	(2)

[1] During the second quarter, the investment in Burberry was disposed of resulting in a gain of SF40 million. This gain was not reflected in Pargesa's earnings as it is classified as FVOCI;

[2] During the second quarter, the share price of Ontex decreased to €18.81 from a cost of €27.62, which would have resulted in an impairment charge of SF87 million under IAS 39. Under IFRS 9, Pargesa classifies its investment in Ontex as FVOCI and as a result, the impairment charge was not recognized in earnings. The Corporation's share of the impairment in the second quarter was \$22 million.

At the end of the third quarter, the share price of Ontex decreased to €18.35; a further impairment charge of \$1 million was recognized by Power Corporation, relating to its share of the impairment;

[3] During the first quarter, two investments held through private equity funds, classified as FVPL in accordance with IFRS 9, were disposed of, which resulted in gains of SF57 million. These realized gains have not been reflected in Pargesa's earnings as the investments were reclassified from available for sale to FVPL on January 1, 2018. As described above, on transition, the related unrealized gains recorded in other comprehensive income were transferred permanently to retained earnings;

[4] During the first three quarters of 2018, Pargesa recognized SF14 million of net unrealized gains in earnings related to changes in fair value of their private equity funds. These gains are not recognized by the Corporation as it continues to classify these private equity funds as available for sale in accordance with IAS 39.

Other than the share of earnings of Imerys, a significant portion of Pargesa's adjusted net earnings is composed of dividends from its non-consolidated investments, which are usually declared as follows:

- | | |
|--|--|
| <ul style="list-style-type: none"> ▪ LafargeHolcim (second quarter) ▪ SGS (first quarter) ▪ Pernod Ricard (second and fourth quarters) ▪ Total (second, third and fourth quarters) | <ul style="list-style-type: none"> ▪ adidas (second quarter) ▪ Umicore (second and third quarters) ▪ Ontex (second quarter) ▪ GEA (second quarter) |
|--|--|

RESULTS

Net earnings in the nine-month period ended September 30, 2018 decreased by SF98 million to SF251 million, compared with the corresponding period in 2017, mainly due to:

- A decrease in the contribution from private equity activities and other investment funds of SF104 million. The decrease is mainly due to the adoption of IFRS 9 by Pargesa, resulting in gains of SF57 million realized during the first quarter on the disposal of investments not reflected in earnings. In 2017, realized gains of SF123 million were related to the disposal of two private equity investments; and
- An increase in net financing charges of SF6 million from the corresponding period in 2017 to SF21 million mainly due to a decrease in income from trading and derivative activities of GBL in managing its portfolio of SF7 million, partially offset by the net impact of fair value adjustments to derivative instruments.
- Partially offset by an increase in the contribution from Imerys of SF10 million from SF90 million to SF100 million at September 30, 2018; and
- An increase in dividends from its principal holdings of SF16 million to SF188 million compared with SF172 million in the corresponding period in 2017. The increase in dividends is primarily due to the increase in dividends per share paid by most of the portfolio companies, additional investments made in Umicore and GEA as well as a higher Euro/SF average exchange rate.

Net earnings in the three-month period ended September 30, 2018 decreased by SF58 million to SF38 million, compared with the corresponding quarter in 2017, mainly due to a decrease in the contribution from private equity activities and other investment funds of SF55 million to SF9 million, as explained above.

OTHER ITEMS

There were no significant Other items in the first three quarters of 2018 and 2017.

AVERAGE EXCHANGE RATES

The average exchange rates for the nine-month and three-month periods ended September 30, 2018 and 2017 were as follows:

	Nine months ended			Three months ended		
	September 30, 2018	September 30, 2017	Change %	September 30, 2018	September 30, 2017	Change %
Euro/SF	1.161	1.095	6.0	1.144	1.131	1.1
SF/CAD	1.324	1.329	(0.4)	1.328	1.301	2.1

The information above has been derived from Pargesa's third quarter of 2018 press release; see Part E of this MD&A for additional information on Pargesa's results.

OTHER SUBSIDIARIES

The contribution from other subsidiaries and controlled portfolio investments to the Corporation's net earnings was a loss of \$72 million for the nine-month period ended September 30, 2018, compared with a loss of \$65 million in the corresponding period in 2017.

The contribution from other subsidiaries and controlled portfolio investments to the Corporation's net earnings was a loss of \$17 million for the three-month period ended September 30, 2018, compared with a loss of \$10 million in the corresponding period in 2017, and a loss of \$23 million in the second quarter of 2018.

CORPORATE OPERATIONS

Corporate operations include income from the Sagard Investment Funds, China AMC and Other Investments, operating expenses, financing charges, depreciation and income taxes.

Income from Sagard Investment Funds, China AMC and Other Investments

Summary of income from Sagard Investment Funds, China AMC and Other Investments:

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Sagard Investment Funds ^[1]					
Sagard Europe ^[2]	163	1	(3)	(2)	6
Sagard Holdings ^[3, 4]	(27)	5	7	(41)	7
Sagard China ^[5]	13	39	(35)	17	21
China AMC ^[6]	22	177	6	8	177
Other Investments					
Investment and hedge funds	4	90	(1)	-	12
Other ^[7]	9	(6)	(2)	3	(4)
	184	306	(28)	(15)	219

[1] Income from investments for the Sagard Investment Funds is presented net of expenses of their separate dedicated teams.

[2] Mainly comprised gains distributed by the funds in the first quarter of 2018 on the sale of investments.

[3] Excludes the Corporation's share of the results of IntegraMed and Vein Clinics, presented in the section "Other subsidiaries". Vein Clinics was disposed of in the fourth quarter of 2017.

[4] Includes share of earnings (loss) from investments in a jointly controlled corporation and associates. The second quarter of 2018 includes a loss attributable to the recognition of non-cash provisions in an investment.

[5] Sagard China realized losses of \$34 million on the disposal of investments in the third quarter of 2018.

[6] The third quarter of 2017 includes a gain of \$174 million on the fair value remeasurement of the Corporation's previously held interest of 10% in China AMC as a result of attaining significant influence.

[7] Consists mainly of foreign exchange gains or losses and interest on cash and cash equivalents.

Earnings from Sagard Investment Funds, as well as from Other Investments, are volatile in nature as they depend on many factors, including and primarily related to the timing of realizations.

Impairment charges included in income from Sagard Investment Funds and Other Investments were \$16 million in the nine-month period ended September 30, 2018, compared with \$18 million in the corresponding period in 2017. For the three-month period ended September 30, 2018, impairment charges included in income from Sagard Investment Funds and Other Investments were \$5 million, compared with \$1 million in the corresponding period in 2017, and \$10 million in the second quarter of 2018.

Operating and other expenses

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Operating expenses	67	64	21	23	23
Financing charges	34	32	12	11	11
Depreciation	9	8	3	3	3
Income taxes	1	(2)	-	(2)	(7)
Operating and other expenses	111	102	36	35	30

OTHER ITEMS (NOT INCLUDED IN ADJUSTED NET EARNINGS)

The following table presents the Corporation's share of Other items:

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Power Financial					
Lifeco					
Restructuring charges	(25)	(69)	(25)	-	-
IGM					
Restructuring and other charges	(7)	(6)	(7)	-	-
Premium paid on early redemption of debentures	(3)	-	(3)	-	-
Pension plan	-	15	-	-	-
Share of Lifeco's other items	(1)	(3)	(1)	-	-
	(11)	6	(11)	-	-
Pargesa					
Other income (charge)	-	-	-	-	(1)
Corporate operations					
Divestiture of La Presse operations	(54)	-	(54)	-	-
Premium paid on early redemption of debentures	(7)	-	(7)	-	-
	(61)	-	(61)	-	-
	(97)	(63)	(97)	-	(1)

For additional information, refer to the respective Lifeco, IGM or Pargesa "Other items" sections above.

Corporate Other items

In the third quarter, the Corporation transferred net assets of La Presse to a new not-for-profit structure and realized a loss of \$54 million on the divestiture, which includes the financial contribution of \$50 million. Refer to the section "Square Victoria Communications Group" for more details.

On September 6, 2018, the Corporation redeemed all of its \$250 million 7.57% debentures due April 22, 2019. A premium of \$7 million was paid on the early redemption.

Financial Position

CONSOLIDATED BALANCE SHEETS (CONDENSED)

The condensed balance sheets of Lifeco, IGM and other subsidiaries, as well as Power Corporation's and Power Financial's non-consolidated balance sheets are presented below. This table reconciles the non-consolidated balance sheet, which is not in accordance with IFRS, with the condensed consolidated balance sheet of the Corporation at September 30, 2018.

	Power Corporation	Power Financial	Lifeco	IGM	Other subsidiaries	Consolidation adjustments and other ^[1]	Power Corporation Consolidated balance sheets	
							September 30, 2018	December 31, 2017
Assets								
Cash and cash equivalents	832	1,041	3,882	587	107	(464)	5,985	5,903
Investments	1,435	161	168,899	8,163	171	(232)	178,597	173,951
Investments – Power Financial, Lifeco and IGM	12,102	17,180	346	967	-	(30,595)	-	-
Investments – Other subsidiaries	620	-	-	-	-	(620)	-	-
Investment – Parjointco	-	3,574	-	-	-	-	3,574	3,354
Investments – other jointly controlled corporations and associates	638	-	6	641	108	322	1,715	1,800
Funds held by ceding insurers	-	-	9,145	-	-	-	9,145	9,893
Reinsurance assets	-	-	5,895	-	-	-	5,895	5,045
Other assets	399	137	10,352	1,092	710	(207)	12,483	11,845
Intangible assets	-	-	3,849	1,289	501	61	5,700	6,288
Goodwill	-	-	6,501	2,660	550	698	10,409	10,085
Investments on account of segregated fund policyholders	-	-	220,207	-	-	-	220,207	217,357
Total assets	16,026	22,093	429,082	15,399	2,147	(31,037)	453,710	445,521
Liabilities								
Insurance and investment contract liabilities	-	-	165,098	-	-	-	165,098	161,365
Obligations to securitization entities	-	-	-	7,358	-	-	7,358	7,596
Debentures and other debt instruments ^[2]	646	250	5,926	1,850	800	(73)	9,399	9,351
Other liabilities	414	552	11,227	1,640	315	(79)	14,069	13,036
Insurance and investment contracts on account of segregated fund policyholders	-	-	220,207	-	-	-	220,207	217,357
Total liabilities	1,060	802	402,458	10,848	1,115	(152)	416,131	408,705
Equity								
Non-participating shares	963	2,830	2,714	150	-	(5,694)	963	965
Participating shareholders' equity ^[3]	14,003	18,461	21,004	4,401	797	(44,663)	14,003	13,650
Non-controlling interests ^[4, 5]	-	-	2,906	-	235	19,472	22,613	22,201
Total equity	14,966	21,291	26,624	4,551	1,032	(30,885)	37,579	36,816
Total liabilities and equity	16,026	22,093	429,082	15,399	2,147	(31,037)	453,710	445,521

[1] Consolidation adjustments and other includes Portag3 and Wealthsimple, as well as consolidation entries.

[2] The debentures and other debt instruments of Other subsidiaries are secured by the Other subsidiaries and controlled portfolio investment assets which are non-recourse to the Corporation.

[3] Opening retained earnings were decreased by \$236 million as a result of the adoption of IFRS 15; refer to the "Adoption of IFRS 15" section for more details.

[4] Lifeco's non-controlling interests include the Participating Account surplus in subsidiaries.

[5] Non-controlling interests in consolidation adjustments represents non-controlling interests in the equity of Power Financial and Other subsidiaries.

Total assets of the Corporation increased to \$453.7 billion at September 30, 2018, compared with \$445.5 billion at December 31, 2017, mainly due to the positive market and currency movement, as well as new business growth of Lifeco.

Liabilities increased to \$416.1 billion at September 30, 2018, compared with \$408.7 billion at December 31, 2017, mainly due to the following, as disclosed by Lifeco:

- 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.

Part B of this MD&A includes a discussion of the consolidated and non-consolidated balance sheet of Power Financial and Parts C and D of this MD&A include a discussion of the consolidated balance sheets of Lifeco and IGM, respectively.

NON-CONSOLIDATED BALANCE SHEETS

In the non-consolidated basis of presentation shown below, investments in subsidiaries are presented by the Corporation using the equity method. These non-consolidated balance sheets, which are not in accordance with IFRS, enhance the MD&A and assist the reader by identifying changes in Power Corporation's non-consolidated balance sheets.

	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents ^[1]	832	646
Investments		
Power Financial	12,102	11,589
Other subsidiaries	620	512
Sagard Investment Funds ^[2]	1,261	1,554
China AMC	638	642
Other Investments	174	179
Other assets	399	444
Total assets	16,026	15,566
Liabilities		
Debentures	646	648
Other liabilities	414	303
Total liabilities	1,060	951
Equity		
Non-participating shares	963	965
Participating shareholders' equity	14,003	13,650
Total equity	14,966	14,615
Total liabilities and equity	16,026	15,566

[1] Cash equivalents include \$219 million (\$179 million at December 31, 2017) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified as investments in the Consolidated Financial Statements. Cash and cash equivalents also include cash held within the Sagard Investment Funds (see below).

[2] Excludes controlled portfolio investment (IntegraMed), which is included in "Other subsidiaries".

Cash and cash equivalents

Cash and cash equivalents held by the Corporation amounted to \$832 million at September 30, 2018, compared with \$646 million at the end of December 2017 (see "Non-consolidated Statements of Cash Flows" below for details). Of this amount, \$411 million (\$345 million at December 31, 2017) was held by the Sagard Investment Funds.

Investments**POWER FINANCIAL AND OTHER SUBSIDIARIES**

The carrying value of Power Corporation's investments in Power Financial and in Other subsidiaries (including a controlled portfolio investment), accounted for using the equity method, increased to \$12,722 million at September 30, 2018, compared with \$12,101 million at December 31, 2017:

	Power Financial	Other subsidiaries	Total
Carrying value, at the beginning of the year	11,589	512	12,101
Change in accounting policy ^[1]	(236)	-	(236)
Restated carrying value, at the beginning of the year	11,353	512	11,865
Investments in subsidiaries	-	82	82
Share of adjusted net earnings (losses)	1,193	(72)	1,121
Share of other items	(36)	-	(36)
Share of other comprehensive income	226	24	250
Dividends	(608)	-	(608)
Other ^[2]	(26)	74	48
Carrying value, at September 30, 2018	12,102	620	12,722

[1] Refer to the "Adoption of IFRS 15" section for more details.

[2] Mainly related to the effect of change in ownership in a subsidiary of Lifeco and the transfer of net assets of La Presse which includes the reclassification of pension obligations to the corporate activities; refer to the section "Square Victoria Communications Group" for more details.

SAGARD INVESTMENT FUNDS

The investments in the Sagard Investment Funds were \$1,261 million at September 30, 2018, compared with \$1,554 million at December 31, 2017. Sagard Holdings' investments include a jointly controlled corporation and associates. Including cash, the fair value of the investments in the Sagard Investment Funds, and the adjustment for the fair value of investments in a jointly controlled corporation and associates, the total fair value amounted to \$1,887 million at September 30, 2018, compared with \$2,107 million at December 31, 2017.

	September 30, 2018				December 31, 2017			
	Sagard Europe	Sagard Holdings	Sagard China	Total ^[2]	Sagard Europe	Sagard Holdings	Sagard China	Total ^[2]
Cost	293	363	498	1,154	250	402	570	1,222
Unrealized gain (loss)	110	-	(3)	107	249	(5)	88	332
Fair value of non-controlled portfolio investments^[1]	403	363	495	1,261	499	397	658	1,554
Cash	-	200	211	411	-	219	126	345
Fair value of controlled portfolio investment and other	-	218	(3)	215	-	208	-	208
Total fair value	403	781	703	1,887	499	824	784	2,107

[1] As reported in the Corporation's non-consolidated balance sheets.

[2] Fair value of non-controlled portfolio investments includes \$537 million of investments at September 30, 2018 (\$693 million at December 31, 2017) valued using quoted prices in active markets.

CHINA AMC

The carrying value of Power Corporation's investment in China AMC was \$638 million at September 30, 2018, compared with \$642 million at December 31, 2017.

Carrying value, at the beginning of the year	642
Dividends	(12)
Share of net earnings	22
Other comprehensive income	(14)
Carrying value, at September 30, 2018	638

China AMC's assets under management, excluding subsidiary assets under management, were RMB¥906 billion (C\$180 billion) at June 30, 2018, compared with RMB¥870 billion (C\$168 billion) at December 31, 2017.

OTHER INVESTMENTS

Other investments include portfolio investments in private investment funds and a select number of hedge funds. These investments are classified as available for sale and are carried at fair value. At September 30, 2018, the fair value of other investments amounted to \$174 million, compared with \$179 million at December 31, 2017.

The fair value of private investment funds was \$119 million at September 30, 2018, compared with \$124 million at December 31, 2017, and the Corporation had outstanding commitments to make future capital contributions to these funds for an aggregate amount of \$57 million. The Corporation expects that future distributions from these funds will be sufficient to meet outstanding commitments.

At September 30, 2018, the fair value of investments in hedge funds and other was \$55 million.

EQUITY**Non-participating shares**

Non-participating (preferred) shares of the Corporation consist of six series of First Preferred Shares with an aggregate stated capital of \$963 million at September 30, 2018, of which \$950 million are non-cumulative (same as at December 31, 2017). All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

Participating shareholders' equity

Participating shareholders' equity was \$14,003 million at September 30, 2018, compared with \$13,650 million at December 31, 2017:

Nine months ended September 30	2018	2017
Participating shareholders' equity, at the beginning of the year	13,650	12,898
Change in accounting policy ^[1]	(236)	-
Restated participating shareholder's equity, at the beginning of the year	13,414	12,898
Changes in retained earnings		
Net earnings before dividends on non-participating shares	1,097	1,117
Dividends declared	(561)	(527)
Effects of changes in capital and ownership of subsidiaries, and other	(46)	16
	490	606
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	40	(410)
Investment revaluation and cash flow hedges	(276)	36
Actuarial gains (losses) on defined benefit plans	161	(2)
Share of Pargesa and other jointly controlled corporations and associates	131	226
Share-based compensation	(4)	(4)
	52	(154)
Issuance of subordinate voting shares (1,573,416 shares in 2018 and 683,139 shares in 2017) under the Corporation's Executive Stock Option Plan	47	21
Participating shareholders' equity, at September 30	14,003	13,371

[1] Refer to the "Adoption of IFRS 15" section for more details.

The book value per participating share of the Corporation was \$30.06 at September 30, 2018, compared with \$29.40 at the end of 2017.

Outstanding number of participating shares

At the date of this MD&A, there were 48,854,772 Participating Preferred Shares of the Corporation outstanding, the same as at December 31, 2017, and 417,040,201 Subordinate Voting Shares of the Corporation outstanding, compared with 415,443,579 at December 31, 2017. At the date of this MD&A, options were outstanding to purchase up to an aggregate of 16,514,286 Subordinate Voting Shares of the Corporation under the Corporation's Executive Stock Option Plan.

Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)

The condensed cash flows of Lifeco, IGM and other subsidiaries, as well as Power Corporation's and Power Financial's non-consolidated cash flows, are presented below. This table reconciles the non-consolidated statement of cash flows, which is not in accordance with IFRS, to the condensed consolidated statement of cash flows of the Corporation for the nine-month period ended September 30, 2018.

Nine months ended September 30	Power Financial	Lifeco	IGM	Power Financial		Power Corporation	Other subsidiaries	Consolidation adjustments	Power Corporation Consolidated	
				Consolidation adjustments and other	Power Financial Consolidated				2018	2017
Cash flows from:										
Operating activities	1,031	4,929	581	(1,140)	5,401	538	(103)	(561)	5,275	4,612
Financing activities	(1,009)	(1,007)	(1,025)	1,094	(1,947)	(524)	238	512	(1,721)	(786)
Investing activities	(35)	(3,606)	64	52	(3,525)	172	(145)	9	(3,489)	(3,985)
Effect of changes in exchange rates on cash and cash equivalents	-	15	-	-	15	-	2	-	17	(83)
Increase (decrease) in cash and cash equivalents	(13)	331	(380)	6	(56)	186	(8)	(40)	82	(242)
Cash and cash equivalents, at the beginning of the year	1,054	3,551	967	(251)	5,321	646	115	(179)	5,903	5,182
Cash and cash equivalents, at September 30	1,041	3,882	587	(245)	5,265	832	107	(219)	5,985	4,940

Consolidated cash and cash equivalents increased by \$82 million in the nine-month period ended September 30, 2018, compared with a decrease of \$242 million in the corresponding period in 2017.

Operating activities produced a net inflow of \$5,275 million in the nine-month period ended September 30, 2018, compared with a net inflow of \$4,612 million in the corresponding period in 2017.

Cash flows from financing activities, which include dividends paid on the participating and non-participating shares of the Corporation and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of \$1,721 million in the nine-month period ended September 30, 2018, compared with a net outflow of \$786 million in the corresponding period in 2017.

Cash flows from investing activities resulted in a net outflow of \$3,489 million in the nine-month period ended September 30, 2018, compared with a net outflow of \$3,985 million in the corresponding period in 2017.

The Corporation increased its level of fixed income securities with maturities of more than three months, resulting in a net outflow of \$40 million in the nine-month period ended September 30, 2018, compared with a net outflow of \$65 million in the corresponding period in 2017.

Parts B, C and D of this MD&A include a discussion of the cash flows of Power Financial, Lifeco and IGM, respectively.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

As Power Corporation is a holding company, corporate cash flows are primarily comprised of dividends received and income from investments, less operating expenses, financing charges, income taxes, and non-participating and participating share dividends. Dividends received from Power Financial, which is also a holding company, represent a significant component of the Corporation's corporate cash flows.

The following non-consolidated statements of cash flows of the Corporation, which are not presented in accordance with IFRS, have been prepared to assist the reader as they isolate the cash flows of Power Corporation, the parent company.

Nine months ended September 30	2018	2017
Operating activities		
Dividends from subsidiaries	598	578
Dividends from China AMC	12	-
Corporate operations, net of non-cash items	(72)	(108)
	538	470
Financing activities		
Dividends paid on non-participating shares	(39)	(39)
Dividends paid on participating shares	(522)	(488)
Issuance of subordinate voting shares	41	19
Repurchase of non-participating shares for cancellation	(2)	(1)
Issuance of debentures	250	250
Redemption of debentures	(250)	-
Change in other debt instruments	-	(55)
Other	(2)	(1)
	(524)	(315)
Investing activities		
Proceeds from disposal of investments	922	528
Purchase of investments	(668)	(666)
Investment in other subsidiaries	(82)	(329)
Other (including acquisition of capital assets)	-	(6)
	172	(473)
Effect of changes in exchange rates on cash and cash equivalents	-	(13)
Increase (decrease) in cash and cash equivalents	186	(331)
Cash and cash equivalents, at the beginning of the year	646	827
Cash and cash equivalents, at September 30	832	496
Cash and cash equivalents:		
Corporate	421	354
Sagard Investment Funds	411	142
	832	496

On a non-consolidated basis, cash and cash equivalents increased by \$186 million in the nine-month period ended September 30, 2018, compared with a decrease of \$331 million in the corresponding period in 2017.

Operating activities resulted in a net inflow of \$538 million in the nine-month period ended September 30, 2018, compared with a net inflow of \$470 million in the corresponding period in 2017.

- Dividends paid by Power Financial on its common shares during the nine-month period ended September 30, 2018 were \$1.2785 per share, compared with \$1.2175 per share in the corresponding period in 2017. Power Corporation received dividends of \$598 million from Power Financial in the nine-month period ended September 30, 2018, compared with \$570 million in the corresponding period in 2017.

The Corporation's financing activities during the nine-month period ended September 30, 2018 were a net outflow of \$524 million, compared with a net outflow of \$315 million in the corresponding period in 2017, and included:

- Dividends paid on non-participating and participating shares by the Corporation of \$561 million, compared with \$527 million in the corresponding period in 2017. In the nine-month period ended September 30, 2018, dividends paid on the Corporation's participating shares were \$1.1225 per share, compared with \$1.0520 per share in the corresponding period in 2017.
- Issuance of Subordinate Voting Shares of the Corporation for \$41 million pursuant to the Corporation's Executive Stock Option Plan, compared with issuance for an amount of \$19 million in the corresponding period in 2017.
- Issuance of debentures of \$250 million, consistent with the issuance in 2017.
- A redemption of debentures of \$250 million.
- Repurchase of non-participating shares for cancellation of \$2 million, compared with a repurchase of \$1 million in the corresponding period in 2017.

The Corporation's investing activities during the nine-month period ended September 30, 2018 were a net inflow of \$172 million, compared with a net outflow of \$473 million in the corresponding period in 2017.

Proceeds from disposal of investments and purchase of investments are comprised of investment activities of the Sagard Investment Funds and Other Investments.

Capital Management

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

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

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

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

With the exception of debentures and other debt instruments, the Corporation's capital is permanent, matching the long-term nature of its investments. The capital structure of the Corporation consists of: debentures, non-participating shares, participating shareholders' equity, and non-controlling interests. The Corporation views non-participating shares as a cost-effective source of permanent capital.

The Corporation's consolidated capitalization includes the debentures, preferred shares and other debt instruments issued by its consolidated subsidiaries, including those of its controlled portfolio investment. Debentures and other debt instruments issued by Power Financial, Lifeco, IGM and Other subsidiaries are non-recourse to the Corporation. The Corporation does not guarantee debt issued by its subsidiaries. Non-participating shares and total equity accounted for 80% of consolidated capitalization at September 30, 2018.

	September 30, 2018	December 31, 2017
Debentures and other debt instruments		
Power Corporation	646	648
Power Financial	250	250
Lifeco	5,926	5,617
IGM	1,850	2,175
Other subsidiaries ^[1, 2]	800	735
Consolidation adjustments	(73)	(74)
	8,753	8,703
	9,399	9,351
Non-participating shares		
Power Corporation	963	965
Power Financial	2,830	2,830
Lifeco	2,714	2,714
IGM	150	150
	5,694	5,694
	6,657	6,659
Equity		
Participating shareholders' equity	14,003	13,650
Non-controlling interests ^[3]	16,919	16,507
	30,922	30,157
	46,978	46,167

[1] Other subsidiaries include a controlled portfolio investment.

[2] Secured by the Other subsidiaries and controlled portfolio investment assets which are non-recourse to the Corporation.

[3] Represents the non-controlling equity interests of the Corporation's subsidiaries excluding Power Financial, Lifeco, and IGM's preferred shares, which are shown in this table as non-participating shares.

Power Corporation

- The Corporation filed a short-form base shelf prospectus dated December 7, 2016, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of \$2 billion of First Preferred Shares, Subordinate Voting Shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.
- On July 25, 2018, the Corporation issued \$250 million 30-year 4.455% debentures due on July 27, 2048. On September 6, 2018, the Corporation used the proceeds to redeem all of its \$250 million 7.57% debentures due April 22, 2019. A premium of \$7 million was paid on the early redemption.

Lifeco

- On February 28, 2018, Lifeco issued \$500 million of 10-year 3.337% debentures.
- On March 21, 2018, Lifeco's 6.14% \$200 million debenture notes matured at their principal amount together with accrued interest.
- On May 17, 2018, Great-West Lifeco Finance 2018, LP, a subsidiary of Lifeco, issued \$384 million (US\$300 million) 4.047% senior notes due May 17, 2028 and \$640 million (US\$500 million) 4.581% senior notes due May 17, 2048.
- On June 18, 2018, Great-West Life & Annuity Insurance Capital, LP, a subsidiary of Lifeco, redeemed all \$399 million (US\$300 million) aggregate principal amount of its 2.538% plus 3-month LIBOR unsecured subordinated debentures due May 16, 2046.
- On June 26, 2018, Great-West Lifeco Finance (Delaware) LP, a subsidiary of Lifeco, redeemed all \$500 million principal amount of its 7.127% subordinated debentures due June 26, 2048 at a redemption price equal to 100% of the principal amount of the debentures, plus any accrued interest up to but excluding the redemption date.

IGM

- On March 7, 2018, IGM repaid on maturity its \$150 million 2003 Series 6.58% debentures.
- On July 11, 2018, IGM issued \$200 million of 4.174% debentures maturing July 13, 2048. On August 10, 2018, the net proceeds were used by IGM, together with a portion of its existing internal cash resources, to fund the early redemption of all of its \$375 million 7.35% debentures due April 8, 2019. A premium of \$11 million was paid by IGM on the early redemption.

The Corporation itself is not subject to externally imposed regulatory capital requirements; however, Lifeco and certain of its main subsidiaries and IGM's subsidiaries are subject to regulatory capital requirements. Parts B, C and D of this MD&A further describe the capital management activities of Power Financial, Lifeco and IGM, respectively.

RATINGS

The current rating by Standard & Poor's (S&P) of the Corporation's debentures is "A" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Corporation's debentures is "A" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites. These ratings are not a recommendation to buy, sell or hold the securities of a corporation and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The "A" rating assigned to the Corporation's debentures by S&P is the sixth highest of the 22 ratings used for long-term debt. A long-term debenture rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

The "A" rating assigned to the Corporation's debentures by DBRS is the sixth highest of the 26 ratings used for long-term debt. A long-term debenture rated "A" implies that the capacity for repayment is substantial, but of lesser credit quality than AA, and may be vulnerable to future events, although qualifying negative factors are considered manageable.

Risk Management

Power Corporation is a diversified international management and holding company with interests in the financial services, asset management, renewable energy and other business sectors. Its principal holding is a controlling interest in Power Financial which holds substantial interests in the financial services sector through its controlling interest in each of Lifeco and IGM. Power Financial also holds a joint controlling interest in Parjointco, which itself holds a controlling interest in GBL through Pargesa. As a result, the Corporation bears the risks associated with being a significant shareholder of these operating companies. A complete description of these risks is presented in their public disclosures. The respective boards of directors of Power Financial, Lifeco, IGM, Pargesa and GBL are responsible for the risk oversight function at their respective companies. The risk committee of the board of directors of Lifeco is responsible for its risk oversight, and the board of directors of IGM provides oversight and carries out its risk management mandate through various committees. Certain officers of the Corporation are members of these boards and committees of these boards and, consequently, in their role as directors, they participate in the risk oversight function at the operating companies. Parts B, C and D of this MD&A further describe risks related to Power Financial, Lifeco and IGM, respectively.

RISK OVERSIGHT APPROACH

The Corporation believes that a prudent approach to risk is achieved through a governance model that focuses on the active oversight of its investments. The Board of Directors and executive officers of the Corporation have overall oversight and responsibility for risk management associated with the investment activities and operations of the holding company and maintain a comprehensive and appropriate set of policies and controls.

The Board of Directors provides oversight and carries out its risk management mandate primarily through the following committees:

- The Audit Committee addresses risks related to financial reporting and cybersecurity.
- The Compensation Committee considers risks associated with the Corporation's compensation policies and practices.
- The Governance and Nominating Committee oversees the Corporation's approach to appropriately address potential risks related to governance matters.
- The Related Party and Conduct Review Committee reviews and considers for approval transactions with related parties of the Corporation.

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, which investors should carefully consider before investing in securities of the Corporation. The 2017 Annual MD&A reviews certain risks that could impact the financial condition and financial performance, and the value of the equity of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

During the nine-month period ended September 30, 2018, there were no significant changes to the Corporation's risk oversight approach, and the identification and management of the specific risks described in the 2017 Annual MD&A.

Financial Instruments and Other Instruments

FAIR VALUE MEASUREMENT

At September 30, 2018, there had been no material changes to the carrying amounts and fair value of the Corporation and its subsidiaries' assets and liabilities recorded at fair value from December 31, 2017. See Note 19 to the Corporation's Interim Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement.

DERIVATIVE FINANCIAL INSTRUMENTS

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market makers in such derivatives.

The use of derivatives is monitored and reviewed on a regular basis by senior management of the Corporation and by senior management of its subsidiaries. The Corporation and its subsidiaries have each established operating policies, guidelines and procedures relating to the use of derivative financial instruments, which in particular focus on:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring the hedging relationships.

There were no major changes to the Corporation and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the nine-month period ended September 30, 2018. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

	September 30, 2018			December 31, 2017		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Corporation	9	-	-	7	1	1
Power Financial	20	1	-	17	2	2
Lifeco	20,167	396	(727)	16,589	384	(952)
IGM	3,691	32	(4)	3,269	36	8
Other subsidiaries	166	2	2	95	1	1
	24,044	431	(729)	19,970	423	(941)
	24,053	431	(729)	19,977	424	(940)

During the nine-month period ended September 30, 2018, there was an increase of \$4.1 billion in the notional amount of derivatives outstanding, primarily due to an increase in forward-settling mortgage-backed security transactions ("to-be-announced securities") and regular hedging activities. The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) increased to \$431 million at September 30, 2018 from \$424 million at December 31, 2017.

Parts B, C and D of this MD&A provide information on the types of derivative financial instruments used by Power Financial, Lifeco and IGM, respectively.

See Note 25 to the Corporation's 2017 Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

GUARANTEES

In the normal course of their operations, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation or subsidiary could be required to pay third parties, as some of these agreements do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined.

LETTERS OF CREDIT

In the normal course of its reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit on maturity. See also Part C of this MD&A and Note 31 to the Corporation's 2017 Consolidated Financial Statements.

Contingent Liabilities

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation.

Commitments and Contractual Obligations

At September 30, 2018, there had been no material changes in the contractual obligations of the Corporation and its subsidiaries from those reported in the 2017 Annual MD&A.

Income Taxes (Non-Consolidated Basis)

The Corporation had, at September 30, 2018, non-capital losses of \$292 million available to reduce future taxable income (including capital gains). These losses expire during the years 2029 to 2038.

Transactions With Related Parties

Power Corporation has a Related Party and Conduct Review Committee composed entirely of Directors who are independent of management and independent of the Corporation's controlling shareholder. The mandate of this Committee is to review proposed transactions with related parties of the Corporation, including its controlling shareholder, and to approve only those transactions that it deems appropriate and that are done at market terms and conditions.

In the normal course of business, Great-West Life and Putnam enter into various transactions with related companies which include providing group insurance benefits and subadvisory services to other companies within the Power Corporation group of companies. Such transactions are at market terms and conditions. These transactions are reviewed by the appropriate related party and conduct review committee.

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Corporation, Power Financial, and Lifeco and its subsidiaries. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

IGM enters into transactions with subsidiaries of Lifeco. These transactions are in the normal course of operations and include (i) providing certain administrative services, (ii) distributing insurance products and (iii) the sale of residential mortgages to Great-West Life and London Life. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

In October 2017, IGM and a subsidiary of Power Corporation obtained advance tax rulings which permitted tax loss consolidation transactions whereby shares of a subsidiary that has generated tax losses may be acquired by IGM. The Corporation has recognized the benefit of the tax losses to be realized throughout this program.

See Note 29 to the Corporation's 2017 Consolidated Financial Statements for additional information.

Summary of Critical Accounting Estimates and Judgments

In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation uncertainty and areas where significant judgments are made by the management of the Corporation and the managements of its subsidiaries include: the entities to be consolidated, insurance and investment contract liabilities, fair value measurements, investment impairment, goodwill and intangible assets, income taxes and employee future benefits. These are described in the Corporation's 2017 Annual MD&A and in the notes to the 2017 Consolidated Financial Statements. There were no changes in the Corporation's critical accounting estimates and judgments in the third quarter of 2018.

Changes in Accounting Policies

There were no changes to the Corporation's accounting policies from those reported at December 31, 2017, except as described below.

ADOPTION OF IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

On January 1, 2018, the Corporation and its subsidiaries adopted IFRS 15, *Revenue from Contracts with Customers* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers (refer to Note 3 of the Interim Consolidated Financial Statements). The standard outlines criteria that determine whether the Corporation's subsidiaries in the asset management industry are to capitalize and amortize contract costs or expense them.

The Corporation's subsidiaries receive commissions on investment product sales where they either receive a fee directly from the client or directly from the investment fund. The application of IFRS 15 has resulted in a change to the accounting policy related to commission expense as follows:

- Commissions that are paid on investment product sales where a fee is directly received from the client are capitalized and amortized over their estimated useful lives, not exceeding a period of seven years.
- All other commissions paid on investment product sales are expensed as incurred.

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

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

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

Commission expenses are expected to decline in future years due to the change in treatment of the contract costs in accordance with IFRS 15 and changes in IGM's commission structure in which there is an ongoing shift from sales-based commissions to asset-based commissions.

In addition, the Corporation and its subsidiaries have 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 net earnings.

The implementation of IFRS 15 will result in a change in timing of the recognition of commission expenses. However, there is no effect on the cash flows of the Corporation's subsidiaries.

For a further description of the impact of the accounting policy change, refer to Note 3 of the Interim Consolidated Financial Statements for the period ended September 30, 2018.

Future Accounting Changes

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective. There were no significant changes to the future accounting policies that could impact the Corporation and its subsidiaries, in addition to the disclosure in the 2017 MD&A and the 2017 Consolidated Financial Statements, other than as described below:

CURRENT IMPLICATION OF IFRS 9 – FINANCIAL INSTRUMENTS (IFRS 9)

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

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

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

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

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

On consolidation, the Corporation has adjusted the results of both IGM and Pargesa to be in accordance with IAS 39. Refer to the specific discussion included in the IGM and Pargesa sections “Contribution to net earnings and adjusted net earnings”.

IFRS 16 – LEASES (IFRS 16)

The IASB issued IFRS 16, *Leases*, which requires a lessee to recognize a right-of-use asset representing its right to use an underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. IFRS 16 may be implemented using a retrospective approach or a modified retrospective approach, which permits the use of certain practical expedients upon transition. The Corporation is considering which method it will apply on transition.

The adoption of IFRS 16 will result in an increase to the Corporation’s assets and liabilities through the recognition of a right-of-use asset and lease liability. Depreciation expense will increase due to the depreciation of the right-of-use asset and financing charges will increase due to the imputed interest on the lease liability.

The standard will be effective January 1, 2019. The Corporation and its subsidiaries continue to assess the quantitative impact of this standard.

Internal Control over Financial Reporting

The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with IFRS. The Corporation's management, under the supervision of the Co-Chief Executive Officers and the Chief Financial Officer, 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 in the Corporation's internal control over financial reporting during the three-month period ended September 30, 2018 which have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Summary of Quarterly Results

	2018			2017				2016			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues ^[1, 2]	12,972	11,609	10,856	14,043	11,401	12,109	13,809	9,088	14,503	13,879	13,280
Net earnings (attributable to participating shareholders)	186	347	525	208	470	350	258	459	303	272	48
per share – basic	0.40	0.75	1.13	0.44	1.02	0.75	0.56	0.99	0.65	0.59	0.10
per share – diluted	0.40	0.74	1.13	0.44	1.01	0.75	0.55	0.99	0.65	0.59	0.10
Adjusted net earnings (attributable to participating shareholders) ^[3]	283	347	525	419	471	401	269	412	311	308	192
per share – basic ^[3]	0.61	0.75	1.13	0.90	1.02	0.86	0.58	0.89	0.67	0.67	0.41
Other items ^[3, 4]	(97)	-	-	(211)	(1)	(51)	(11)	47	(8)	(36)	(144)
per share – basic ^[3]	(0.21)	-	-	(0.46)	-	(0.11)	(0.02)	0.10	(0.02)	(0.08)	(0.31)

[1] Revenue in the fourth quarter of 2016 is lower due to a decrease in the value of Lifeco's bond portfolio resulting from increasing interest rates.

[2] Comparative figures restated as a result of IFRS 15; see the "Adoption of IFRS 15" section in this MD&A for more details.

[3] Adjusted net earnings and adjusted net earnings per share attributable to participating shareholders, and other items and other items per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the "Non-IFRS Financial Measures and Presentation" section in this MD&A.

[4] The Corporation's share of Power Financial's Other items and Other items of the Corporation are as follows:

	2018			2017				2016			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Power Financial											
Lifeco	(25)	-	-	(154)	-	(56)	(13)	(10)	(7)	(2)	(1)
IGM	(11)	-	-	(57)	-	6	-	14	-	-	-
Pargesa	-	-	-	-	(1)	(1)	2	43	(1)	(34)	(143)
	(36)	-	-	(211)	(1)	(51)	(11)	47	(8)	(36)	(144)
Corporate operations	(61)	-	-	-	-	-	-	-	-	-	-
	(97)	-	-	(211)	(1)	(51)	(11)	47	(8)	(36)	(144)

Power Financial Corporation

PART B

Management's Discussion and Analysis

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Financial Statements and Notes

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The attached documents concerning Power Financial Corporation are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Forward-Looking Statements. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

Power Financial Corporation Management's Discussion and Analysis

NOVEMBER 8, 2018

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

The following presents Management's Discussion and Analysis (MD&A) of the unaudited interim condensed consolidated financial condition and financial performance of Power Financial Corporation (Power Financial or the Corporation) (TSX: PWF), a public corporation, for the nine-month and three-month periods ended September 30, 2018. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of Power Financial and notes thereto for the nine-month and three-month periods ended September 30, 2018 (the Interim Consolidated Financial Statements), the MD&A for the year ended December 31, 2017 (the 2017 Annual MD&A), and the audited consolidated financial statements and notes thereto for the year ended December 31, 2017 (the 2017 Consolidated Financial Statements). Additional information relating to Power Financial, including its Annual Information Form, may be found on the Corporation's website at www.powerfinancial.com and on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS › Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's current expectations, or with respect to disclosure regarding the Corporation's public subsidiaries, reflect such subsidiaries' disclosed current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, fluctuations in interest rates, inflation and foreign exchange rates, monetary policies, business investment and the health of local and global equity and capital markets, management of market liquidity and funding risks, risks related to investments in private companies and illiquid securities, risks associated with financial instruments, changes in accounting policies and methods used to report financial condition (including uncertainties associated with significant judgments, estimates and assumptions), the effect of applying future accounting changes, business competition, operational and reputational risks, technological changes, cybersecurity risks, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including that the list of factors in the previous paragraph, collectively, are not expected to have a material impact on the Corporation and its subsidiaries. While the Corporation considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

Other than as specifically required by applicable Canadian law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Corporation's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including this MD&A and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available at www.sedar.com.

The following abbreviations are used throughout this report:

adidas	adidas AG	London Life	London Life Insurance Company
BME	Madrid Stock Exchange	Mackenzie or	Mackenzie Financial Corporation
Burberry	Burberry Group plc	Mackenzie Investments	
Canada Life	The Canada Life Assurance Company	Ontex	Ontex N.V.
China AMC	China Asset Management Co., Ltd	PanAgora	PanAgora Asset Management, Inc.
EBR	Euronext Brussels	Pargesa	Pargesa Holding SA
EPA	Euronext Paris	Parjointco	Parjointco N.V.
GBL	Groupe Bruxelles Lambert	Parques	Parques Reunidos Servicios Centrales, S.A.
GEA	GEA Group	Portag3	Portag3 Ventures Limited Partnership
Great-West Financial or	Great-West Life & Annuity Insurance Company	Power Corporation	Power Corporation of Canada
Great-West Life & Annuity		Putnam	Putnam Investments, LLC
Great-West Life	The Great-West Life Assurance Company	Retirement Advantage	MGM Advantage Holdings Ltd.
IFRS	International Financial Reporting Standards	SGS	SGS SA
IGM or IGM Financial	IGM Financial Inc.	SIX	Swiss Stock Exchange
IC Wealth Management	Investors Group Inc.	Total	Total SA
Investment Planning Counsel	Investment Planning Counsel Inc.	Umicore	Umicore, NV/SA
Irish Life	Irish Life Group Limited	Wealthsimple	Wealthsimple Financial Corp.
LafargeHolcim	LafargeHolcim Ltd	XETR	XETRA Stock Exchange
Lifeco	Great-West Lifeco Inc.		

Organization of the Interim MD&A

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Overview

POWER FINANCIAL CORPORATION

Power Financial, a subsidiary of Power Corporation, is a diversified international management and holding company with interests substantially in the financial services sector in Canada, the U.S. and Europe. Founded in 1984 with the ambition of creating an integrated financial services group, Power Financial has remained committed to the growth and evolution of its primary holdings through its controlling interests in Lifeco and IGM, and in recent years implemented an active “fintech” strategy. Power Financial also has an investment in Pargesa, a holding company having influence through its holdings in global industrial and services companies based in Europe. Power Financial’s historic and ongoing objective is to create superior shareholder value over the long term.

Since its inception, the leadership of Power Financial has remained consistent in its approach to base decisions on what is in the best long-term interest of its operating companies and shareholders. Throughout its history, Power Financial has managed to the same basic principles:

- take a long-term perspective and investment horizon;
- build industry leaders with attractive growth profiles;
- provide active and strong governance oversight of its companies; and
- use prudence, be risk aware and maintain a strong financial position.

Value creation

Power Financial is committed to developing market-leading businesses that in turn create long-term shareholder value. Its investment approach is guided by three overriding principles, from identifying the right investment to the oversight and evaluation of each investee company:

Investment Principles	<ul style="list-style-type: none"> ▪ Invest in companies that have a long-term perspective and investment horizon ▪ Support operating companies' management to build industry leaders ▪ Focus on high-growth and high return on equity products and market segments ▪ Perform a disciplined, fact-based analysis
Operating Principles	<ul style="list-style-type: none"> ▪ Majority or significant level of ownership ▪ Focus on strategy, people and capital allocation ▪ Prudent, risk-aware and focus on creating and maintaining a strong balance sheet
Governance Principles	<ul style="list-style-type: none"> ▪ Active governance model through boards of subsidiaries ▪ Board composition is a combination of Power Financial executives and external directors <ul style="list-style-type: none"> • Power Financial executives provide substantial industry and company knowledge • External directors provide expertise and diverse perspectives

Current portfolio

Lifeco and IGM have become leaders across the insurance, asset management, and wealth and retirement business lines in its principal markets: Canada, the U.S. and Europe. Power Financial has supported them through various acquisitions and the group strategically benefits through:

- group-wide distribution of products and services;
- collaborative product development;
- shared technologies and back-office capabilities;
- scale enhancement through key relationships and aggregated purchasing power; and
- collaborative approach to important industry developments.

Power Financial, in partnership with Lifeco and IGM, continues to collaborate on the future of the financial services market, which is rapidly changing. The group is actively supporting its "fintech" strategy which has the dual objective of providing an attractive return on the capital invested and helping the existing financial services businesses transform their models. This strategy enables the group to learn new technology applications, how these disruptive business models will affect the current business and how to react to changes in the environment in order to be more effective.

Power Financial also holds jointly with the Frère Group of Belgium a controlling interest in Pargesa, a holding company which, through its subsidiary GBL, maintains a diversified high-quality portfolio composed of global companies that are leaders in their respective sector, through which it can contribute to value creation as an active professional investor. The Pargesa group has positioned its portfolio with a view to strengthening its growth profile and consequently optimizing its potential for long-term value creation. Pargesa shares the values and prudent investing approach of Power Financial. This investment provides Power Financial with a vehicle to create value in the European market and diversifies its financial services portfolio.

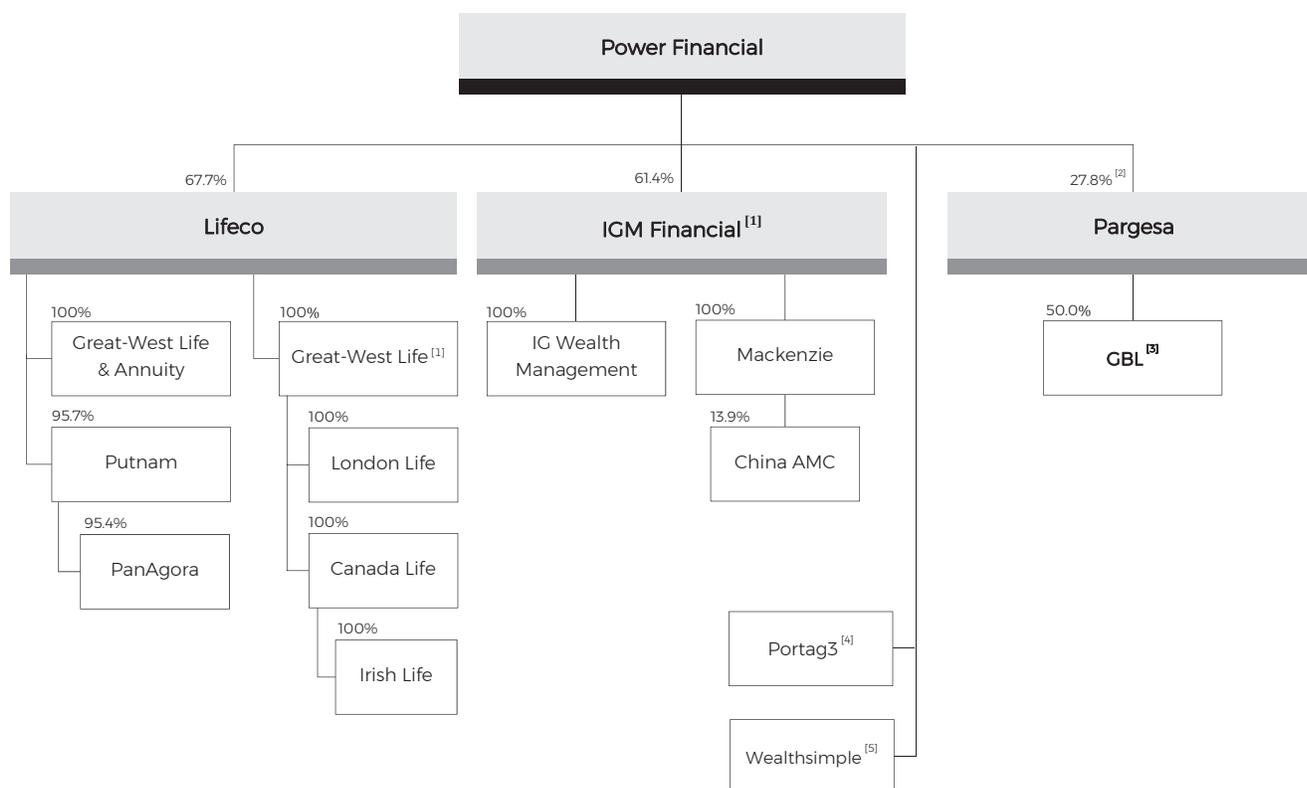
Organization of the MD&A

The Corporation's MD&A consists of four parts:

- Part B – Power Financial, presented on a consolidated and non-consolidated basis;
- Part C – Lifeco's interim MD&A, as prepared and disclosed by Lifeco in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from Lifeco's website (www.greatwestlifeco.com);
- Part D – IGM's interim MD&A, as prepared and disclosed by IGM in accordance with applicable securities legislation, and which is also available either directly from SEDAR (www.sedar.com) or from IGM's website (www.igmfinancial.com);
- Part E – Pargesa's financial results, derived from publicly disclosed information, as issued by Pargesa in its quarterly press release. Further information on Pargesa's results is available on its website (www.pargesa.ch).

Lifeco (TSX: GWO) and IGM (TSX: IGM) are public companies listed on the Toronto Stock Exchange. Pargesa is a public company listed on the Swiss Stock Exchange (SIX: PARC). Market capitalizations reported in the following sections are at September 30, 2018.

The following chart reflects the economic interest held by the Corporation in its operating subsidiaries and certain other investments at September 30, 2018.



In bold: Publicly listed holdings

[1] Great-West Life holds a 3.8% interest in IGM, and IGM holds a 4.0% interest in Lifeco.

[2] Held through Parjointco, a jointly controlled corporation (50%).

[3] Refer to the "Pargesa and GBL" section for a list of investments in public companies.

[4] Power Financial directly holds a 63% interest, and Lifeco and IGM also hold equal interests of 18.5%, in Portag3.

[5] Power Financial directly holds a 14.7% interest, and Portag3 and IGM also hold interests of 23.6% and 43.3%, respectively, in Wealthsimple.

LIFECO

Great-West Lifeco Inc., TSX: GWO; market capitalization of \$31.0 billion, is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Lifeco has operations in Canada, the United States and Europe through Great-West Life, London Life, Canada Life, Great-West Financial, Putnam and Irish Life. For reporting purposes, Lifeco has four reportable segments: Canada, the United States, Europe and Corporate, which reflect geographic lines as well as the management and corporate structure of the companies.

In Canada, through the Individual Customer and Group Customer business units, Lifeco offers a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, including life, disability and critical illness insurance products as well as wealth accumulation, annuity and other speciality products.

The United States segment operates two business units, Financial Services and Asset Management. Its Financial Services unit serves all segments of the employer-sponsored retirement plan market and offers employer-sponsored defined contribution plans, individual retirement accounts, enrollment services, communication materials, investment options and education services as well as fund management, investment and advisory services. The Asset Management unit, Putnam, provides investment management, certain administrative functions, and distribution services as well as offers a broad range of investment products, including equity, fixed income, absolute return and alternative strategies. PanAgora, a Putnam affiliate, offers a broad range of investment solutions using sophisticated quantitative techniques.

The European segment is comprised of two distinct business units, Insurance & Annuities and Reinsurance, which offer protection and wealth management products, including payout annuity products and reinsurance products.

At September 30, 2018, Power Financial and IGM held interests of 67.7% and 4.0%, respectively, in Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. The *Insurance Companies Act* limits voting rights in life insurance companies to 65%.

See Part C of this MD&A for additional information on Lifeco.

IGM FINANCIAL

IGM Financial Inc., TSX: IGM; market capitalization of \$8.5 billion, is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly, primarily within the advice segment of the financial services market. Its activities are carried out principally through its subsidiaries IG Wealth Management, Mackenzie Investments and Investment Planning Counsel.

In the third quarter, IGM announced that it has rebranded Investors Group as IG Wealth Management, reflecting its central focus on helping clients grow their wealth. The firm also announced the launch of the IG Living Plan™, a holistic, client-centric approach to financial planning that reflects the evolving needs, goals and aspirations of Canadian families and individuals. The IG Living Plan™ provides a single, integrated view of all aspects of a client's finances including retirement and estate planning, investments, and tax strategies, creating a truly synchronized and comprehensive plan.

IG Wealth Management offers an exclusive family of mutual funds and other investment vehicles, and a wide range of insurance, securities, mortgage products and other financial services. IG Wealth Management provides its services through its exclusive network of consultants across Canada. It strives to distinguish itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships.

Mackenzie Investments is an investment management firm providing investment advisory and related services through multiple distribution channels: Retail, Strategic Alliances and Institutional. Mackenzie distributes its products and services primarily through a diversified distribution network of third-party financial advisors. Mackenzie seeks to be Canada's preferred global asset management solutions provider and business partner.

Mackenzie Investments holds a 13.9% interest in China AMC, one of the first fund management companies in China, which has developed and maintained its position among the market leaders in China's asset management industry. China AMC's assets under management, excluding subsidiary assets under management, were RMB¥906 billion (C\$180 billion) at June 30, 2018. Power Financial's parent company, Power Corporation, directly holds a 13.9% equity interest in China AMC. Power Corporation and Mackenzie Investments hold a combined 27.8% interest in China AMC. Power Corporation and IGM have significant influence and account for their interests as an associate using the equity method.

Investment Planning Counsel is an independent distributor of financial products, services and advice in Canada.

At September 30, 2018, Power Financial and Great-West Life, a subsidiary of Lifeco, held interests of 61.4% and 3.8%, respectively, in IGM's common shares.

See Part D of this MD&A for additional information on IGM.

PARGESA AND GBL

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère Group each hold a 50% interest in Parjointco. At September 30, 2018, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

Pargesa, SIX: PARG; market capitalization of SF6.7 billion, is a holding company, which, at September 30, 2018, held a 50% interest in GBL, representing 50.7% of the voting rights. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange.

GBL, EBR: GBLB; market capitalization of €14.6 billion, is one of the largest listed holding companies in Europe. As a holding company focused on long-term value creation, GBL relies on a stable, family shareholder base. Its portfolio is comprised of global industrial and services companies, leaders in their markets, in which GBL plays its role of professional shareholder.

At September 30, 2018, GBL's portfolio was mainly comprised of investments in the following publicly traded companies:

- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ Imerys (EPA: NK) – mineral-based specialty solutions for industry ▪ adidas (XETR: ADS) – design and distribution of sportswear ▪ SGS (SIX: SGSN) – testing, inspection and certification ▪ Pernod Ricard (EPA: RI) – wines and spirits ▪ LafargeHolcim (SIX: HOLN and EPA: LHN) – cement, aggregates and concrete | <ul style="list-style-type: none"> ▪ Umicore (EBR: UMI) – materials technology and recycling of precious metals ▪ Total (EPA: FP) – oil, gas and chemical industries ▪ GEA (XETR: G1A) – supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors ▪ Ontex (EBR: ONTEX) – disposable hygiene products ▪ Parques (BME: PQR) – operation of regional leisure parks |
|---|---|

In addition, through its subsidiary Sienna Capital, GBL is developing a portfolio of private equity, debt and thematic funds.

At September 30, 2018, Pargesa's net asset value was SF10,723 million, compared with SF10,851 million at December 31, 2017. GBL's net asset value at September 30, 2018 was €19,211 million compared with €18,888 million at December 31, 2017.

See Part E of this MD&A for additional information on Pargesa.

PORTAG3 AND WEALTHSIMPLE

Power Financial together with IGM and Lifeco (the group), controls Portag3, an investment fund dedicated to backing innovative financial services companies. Portag3 holds a 23.6% equity interest in Wealthsimple, a technology-driven investment manager with assets under administration of \$3.2 billion at September 30, 2018 (\$1.7 billion at December 31, 2017). In addition to the interest held indirectly through Portag3, Power Financial and IGM also held, at September 30, 2018, equity interests in Wealthsimple of 14.7% and 43.3%, respectively.

During the first two quarters of 2018, Power Financial and IGM invested \$24 million and \$51 million, respectively, in Wealthsimple. At September 30, 2018, the group has invested \$193 million in Wealthsimple.

On October 30, 2018, Portag3 announced the initial closing of Portag3 Ventures II LP, its second fintech venture fund focused on early stage investments in the global financial technology sector. Total capital commitments amount to \$198 million of which Power Financial, Lifeco and IGM have each committed \$33 million. The fair value of the investments held by the fund at September 30, 2018 was \$46 million.

Basis of Presentation

IFRS FINANCIAL MEASURES AND PRESENTATION

The Interim Consolidated Financial Statements of the Corporation have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* (IAS 34) and are presented in Canadian dollars.

Consolidated financial statements present, as a single economic entity, the assets, liabilities, revenues, expenses and cash flows of the parent company and its subsidiaries. The consolidated financial statements present the financial results of Power Financial (parent) and Lifeco, IGM, Portag3 and Wealthsimple (Power Financial's controlled operating subsidiaries) after the elimination of intercompany balances and transactions.

Power Financial's investment in Pargesa is held through Parjointco. Parjointco is a holding company jointly controlled by Power Financial and the Frère Group. Power Financial's investment in Parjointco is accounted for using the equity method, in which the investment is initially recognized at cost and adjusted thereafter for:

- Power Financial's share of:
 - Net earnings or loss in Pargesa;
 - Other comprehensive income or loss in Pargesa; and
 - Pargesa's other changes in equity.
- Dividends received from Parjointco.

The following table summarizes the accounting presentation for the Corporation's holdings:

Control	Accounting Method	Earnings and Other Comprehensive Income	Impairment Testing	Impairment Reversal
Controlling interest in the entity	Consolidation	Consolidated with non-controlling interests	Goodwill and indefinite life intangible assets are tested at least annually for impairment	Impairment of goodwill cannot be reversed Impairment of intangible assets is reversed if there is evidence of recovery of value
Significant influence or joint control	Equity method	Corporation's share of earnings and other comprehensive income	Entire investment is tested for impairment	Reversed if there is evidence the investment has recovered its value
Non-controlled portfolio investments	Available for sale (AFS)	Earnings consist of dividends received and gains or losses on disposals The investments are marked to market through other comprehensive income Earnings are reduced by impairment charges, if any	Impairment testing is done at the individual investment level A significant or prolonged decline in the value of the investment results in an impairment charge A share price decrease subsequent to an impairment charge leads to a further impairment	A subsequent recovery of value does not result in a reversal

At September 30, 2018, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
Lifeco ^[1]	67.7	Controlling interest	Consolidation
IGM ^[2]	61.4	Controlling interest	Consolidation
Pargesa ^[3]	27.8	Joint control	Equity method
Portag3 ^[4]	63.0	Controlling interest	Consolidation
Wealthsimple ^[5]	14.7	Controlling interest	Consolidation

[1] IGM also holds a 4.0% interest in Lifeco.

[2] Great-West Life also holds a 3.8% interest in IGM.

[3] Held through Parjointco, a jointly controlled corporation (50%).

[4] Lifeco and IGM also hold equal interests of 18.5% in Portag3.

[5] Portag3 and IGM also hold interests of 23.6% and 43.3%, respectively, in Wealthsimple.

At September 30, 2018, Pargesa's publicly listed holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
GBL	50.0	Controlling interest	Consolidation
Imerys	53.8	Controlling interest	Consolidation
adidas	7.5	Portfolio investment	Available for sale
SCS	16.6	Portfolio investment	Available for sale
Pernod Ricard	7.5	Portfolio investment	Available for sale
LafargeHolcim	9.4	Portfolio investment	Available for sale
Umicore	16.9	Portfolio investment	Available for sale
Total	0.6	Portfolio investment	Available for sale
GEA	7.3	Portfolio investment	Available for sale
Ontex	20.0	Portfolio investment	Available for sale
Parques	21.2	Significant influence	Equity method
Other investments	< 5.0	Portfolio investments	Available for sale

This summary of accounting presentation should be read in conjunction with the following notes to the Corporation's 2017 Consolidated Financial Statements:

- Basis of presentation and summary of significant accounting policies (Note 2);
- Investments (Note 5);
- Investments in jointly controlled corporations and associates (Note 7);
- Goodwill and intangible assets (Note 10); and
- Non-controlling interests (Note 19).

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

This MD&A presents and discusses financial measures which are not in accordance with IFRS. Management uses these financial measures in its presentation and analysis of the financial performance of Power Financial, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. The non-IFRS financial measures used in the MD&A are defined as follows:

Non-IFRS financial measure	Definition	Purpose
Non-consolidated basis of presentation	Power Financial's interests in Lifeco, IGM, Portag3 and Wealthsimple are accounted for using the equity method.	Used by the Corporation to present and analyze its results, financial position and cash flows. Presents the holding company's (parent) results separately from the results of its consolidated operating companies. As a holding company, management reviews and assesses the performance of each operating company's contribution to net earnings and adjusted net earnings. This presentation is useful to the reader to assess the impact of the contribution to earnings for each subsidiary.
Adjusted net earnings	Net earnings excluding the impact of Other items.	Assists in the comparison of the current period's results to those of previous periods as items that are not considered to be a part of ongoing operations are excluded.
Other items	After-tax impact of any item that in management's judgment would make the period-over-period comparison of results from operations less meaningful. Includes the Corporation's share of items presented as other items by a subsidiary or a jointly controlled corporation.	Identifies items that are not considered part of ongoing operations. The exclusion of these items assists management and the reader in assessing current results as these items are not reflective of ongoing operations.
Adjusted net earnings per share	Earnings per share calculated using adjusted net earnings. Adjusted net earnings divided by the weighted average number of common shares outstanding.	Assists in comparing adjusted net earnings on a per share basis.

These non-IFRS financial measures do not have a standard meaning and may not be comparable to similar measures used by other entities. Reconciliations of the non-IFRS basis of presentation with the presentation in accordance with IFRS are included throughout this MD&A.

RECONCILIATION OF IFRS AND NON-IFRS FINANCIAL MEASURES

The following tables present a reconciliation of net earnings and earnings per share reported in accordance with IFRS to non-IFRS financial measures: adjusted net earnings, other items and adjusted net earnings per share. Adjusted net earnings and adjusted net earnings per share are presented in the section "Non-Consolidated Statements of Earnings":

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Net earnings - IFRS financial measure ^[1]	1,767	1,492	523	658	463
Share of Other items ^[2] , net of tax					
Lifeco	39	104	39	-	-
IGM	16	(8)	16	-	-
Pargesa	-	-	-	-	2
	55	96	55	-	2
Adjusted net earnings - Non-IFRS financial measure ^[1]	1,822	1,588	578	658	465

[1] Available to common shareholders of Power Financial.

[2] Refer to the section "Other items" for more details on Other items from Lifeco, IGM and Pargesa.

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Net earnings per share - IFRS financial measure ^[1]	2.48	2.09	0.74	0.92	0.65
Share of Other items ^[2] , net of tax					
Lifeco	0.05	0.14	0.05	-	-
IGM	0.02	(0.01)	0.02	-	-
	0.07	0.13	0.07	-	-
Adjusted net earnings per share - Non-IFRS financial measure ^[1]	2.55	2.22	0.81	0.92	0.65

[1] Available to common shareholders of Power Financial.

[2] Refer to the section "Other items" for more details on Other items from Lifeco, IGM and Pargesa.

Results of Power Financial

This section presents:

- the “Consolidated Statements of Earnings in accordance with IFRS”; and
- the “Non-Consolidated Statements of Earnings”, which present the contributions of operating subsidiaries and Pargesa to the net earnings and adjusted net earnings of Power Financial.

Refer to the section “Non-IFRS Financial Measures and Presentation” for a description of the non-consolidated basis of presentation and a reconciliation of IFRS and non-IFRS financial measures.

CONSOLIDATED STATEMENTS OF EARNINGS IN ACCORDANCE WITH IFRS

Power Financial's consolidated statements of earnings for the nine months and three months ended September 30, 2018 are presented below. The Corporation's operating segments are Lifeco, IGM and Pargesa. This table reflects the contributions from Lifeco, IGM and Pargesa to the net earnings attributable to Power Financial's common shareholders.

Consolidated net earnings – Nine months ended

	Lifeco	IGM ^[1]	Pargesa ^[2]	Corporate ^[3]	Power Financial Consolidated net earnings	
					September 30, 2018	September 30, 2017
Revenues						
Premium income, net ^[4]	26,416	-	-	(16)	26,400	25,408
Net investment income	1,518	142	-	(92)	1,568	4,633
Fee income ^[4]	4,399	2,293	-	(73)	6,619	6,300
Total revenues	32,333	2,435	-	(181)	34,587	36,341
Expenses						
Total paid or credited to policyholders	23,382	-	-	-	23,382	25,656
Commissions ^[4]	1,801	826	-	(47)	2,580	2,792
Operating and administrative expenses ^[4]	4,309	774	-	96	5,179	4,956
Financing charges	151	97	-	13	261	324
Total expenses	29,643	1,697	-	62	31,402	33,728
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,690	738	-	(243)	3,185	2,613
Share of earnings of investments in jointly controlled corporations and associates	-	22	92	8	122	188
Earnings before income taxes	2,690	760	92	(235)	3,307	2,801
Income taxes	337	166	-	4	507	408
Net earnings	2,353	594	92	(239)	2,800	2,393
Attributable to						
Non-controlling interests	832	253	-	(156)	929	802
Perpetual preferred shareholders	-	-	-	104	104	99
Common shareholders of Power Financial	1,521	341	92	(187)	1,767	1,492
	2,353	594	92	(239)	2,800	2,393

[1] Results reported by IGM are in accordance with IFRS 9 and include the transition impact related to the reclassification and remeasurement of certain mortgage loans. As the Corporation has not adopted IFRS 9, this adjustment has been reversed on consolidation and included in “Corporate”.

[2] The Corporation's share of earnings of Pargesa includes adjustments in accordance with IAS 39 including the Corporation's share of gains realized on the sale of investments classified as fair value through other comprehensive income (FVOCI) by Pargesa and an impairment charge. These amounts are not included in Pargesa's reported net earnings as it adopted IFRS 9 on January 1, 2018.

[3] “Corporate” is comprised of the results of Portag3 and Wealthsimple, the Corporation's investment activities, corporate operations and consolidation entries.

[4] Amounts in comparative periods have been reclassified; refer to the section “Adoption of IFRS 15” for more details.

Consolidated net earnings - Three months ended

	Lifeco	IGM ^[1]	Pargesa ^[2]	Corporate ^[3]	Power Financial Consolidated net earnings		
					September 30, 2018	June 30, 2018	September 30, 2017
Revenues							
Premium income, net ^[4]	10,337	-	-	(5)	10,332	7,899	8,293
Net investment income	207	49	-	(36)	220	1,243	528
Fee income ^[4]	1,483	776	-	(24)	2,235	2,218	2,110
Total revenues	12,027	825	-	(65)	12,787	11,360	10,931
Expenses							
Total paid or credited to policyholders	9,046	-	-	-	9,046	7,556	7,567
Commissions ^[4]	611	270	-	(16)	865	851	839
Operating and administrative expenses ^[4]	1,487	268	-	29	1,784	1,703	1,538
Financing charges	69	38	-	4	111	44	105
Total expenses	11,213	576	-	17	11,806	10,154	10,049
Earnings before investments in jointly controlled corporations and associates, and income taxes	814	249	-	(82)	981	1,206	882
Share of earnings of investments in jointly controlled corporations and associates	-	6	12	-	18	52	41
Earnings before income taxes	814	255	12	(82)	999	1,258	923
Income taxes	107	55	-	1	163	212	147
Net earnings	707	200	12	(83)	836	1,046	776
Attributable to							
Non-controlling interests	243	87	-	(52)	278	353	276
Perpetual preferred shareholders	-	-	-	35	35	35	37
Common shareholders of Power Financial	464	113	12	(66)	523	658	463
	707	200	12	(83)	836	1,046	776

[1] Results reported by IGM are in accordance with IFRS 9 and include the transition impact related to the reclassification and remeasurement of certain mortgage loans. As the Corporation has not adopted IFRS 9, this adjustment has been reversed on consolidation and included in "Corporate".

[2] The Corporation's share of earnings of Pargesa includes adjustments in accordance with IAS 39 including the Corporation's share of gains realized on the sale of investments classified as FVOCI by Pargesa and an impairment charge. These amounts are not included in Pargesa's reported net earnings as it adopted IFRS 9 on January 1, 2018.

[3] "Corporate" is comprised of the results of Portag3 and Wealthsimple, the Corporation's investment activities, corporate operations and consolidation entries.

[4] Amounts in comparative periods have been reclassified; refer to the section "Adoption of IFRS 15" for more details.

As a holding company, the Corporation evaluates the performance of each segment based on its contribution to net earnings and adjusted net earnings. A discussion of the results of Lifeco, IGM and Pargesa is provided in the "Contribution to net earnings and adjusted net earnings" section below.

NON-CONSOLIDATED STATEMENTS OF EARNINGS

In this section, the contributions from Lifeco and IGM to the net earnings and adjusted net earnings attributable to Power Financial's common shareholders are accounted for using the equity method.

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Adjusted net earnings ^[1]					
Lifeco ^[2]	1,560	1,292	503	562	392
IGM ^[2]	357	322	129	121	102
Pargesa ^[2]	92	128	12	36	36
	2,009	1,742	644	719	530
Corporate operations	(83)	(55)	(31)	(26)	(28)
Dividends on perpetual preferred shares	(104)	(99)	(35)	(35)	(37)
Adjusted net earnings ^[3]	1,822	1,588	578	658	465
Other items ^[4]					
Lifeco	(39)	(104)	(39)	-	-
IGM	(16)	8	(16)	-	-
Pargesa	-	-	-	-	(2)
	(55)	(96)	(55)	-	(2)
Net earnings ^[3]	1,767	1,492	523	658	463
Earnings per share - basic ^[3]					
Adjusted net earnings	2.55	2.22	0.81	0.92	0.65
Other items	(0.07)	(0.13)	(0.07)	-	-
Net earnings	2.48	2.09	0.74	0.92	0.65

[1] For a reconciliation of Lifeco, IGM and Pargesa's non-IFRS adjusted net earnings to their net earnings, refer to the "Contribution to net earnings and adjusted net earnings" section below.

[2] The contributions from Lifeco and IGM include an allocation of the results of Wealthsimple and Portag3, based on their respective interest. Contributions from IGM and Pargesa reflect adjustments in accordance with IAS 39.

[3] Attributable to common shareholders.

[4] See "Other items" section below.

	2018 vs. 2017	Q3 2018 vs. Q3 2017 and Q2 2018
Net earnings	\$1,767 million or \$2.48 per share, compared with \$1,492 million or \$2.09 per share in the corresponding period in 2017, an increase of 18.7% on a per share basis.	\$523 million or \$0.74 per share, compared with \$463 million or \$0.65 per share in the corresponding period in 2017, an increase of 13.8% on a per share basis, and \$658 million or \$0.92 per share in the second quarter of 2018. During the third quarter of 2017, Lifeco recorded a provision of \$175 million after tax relating to the impact of 2017 Atlantic hurricane activity. Power Financial's share of this loss estimate amounts to \$123 million after tax or \$0.17 on a per share basis, in both the three-month and nine-month periods.
Adjusted net earnings	\$1,822 million or \$2.55 per share, compared with \$1,588 million or \$2.22 per share in the corresponding period in 2017, an increase of 14.9% on a per share basis.	\$578 million or \$0.81 per share, compared with \$465 million or \$0.65 per share in the corresponding period in 2017, an increase of 24.6% on a per share basis, and \$658 million or \$0.92 per share in the second quarter of 2018.
Contribution to net earnings and adjusted net earnings from Lifeco, IGM and Pargesa	Contribution to net earnings of \$1,954 million, compared with \$1,646 million in the corresponding period in 2017, an increase of 18.7%. Contribution to adjusted net earnings of \$2,009 million, compared with \$1,742 million in the corresponding period in 2017, an increase of 15.3%.	Contribution to net earnings of \$589 million, compared with \$528 million in the corresponding period in 2017, an increase of 11.6%. Contribution to adjusted net earnings of \$644 million, compared with \$530 million in the corresponding period in 2017, an increase of 21.5%. Contribution to net and adjusted net earnings of \$719 million in the second quarter of 2018.

A discussion of the results of the Corporation is provided in the sections "Contribution to net earnings and adjusted net earnings", "Corporate operations", and "Other items" below.

CONTRIBUTION TO NET EARNINGS AND ADJUSTED NET EARNINGS

LIFECO

Contribution to Power Financial

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Contribution to Power Financial's ^[1] :					
Adjusted net earnings					
As reported by Lifeco	1,563	1,296	505	563	394
Consolidation entries	(3)	(4)	(2)	(1)	(2)
	1,560	1,292	503	562	392
Other items	(39)	(104)	(39)	-	-
Net earnings	1,521	1,188	464	562	392

[1] The average direct ownership of Power Financial in Lifeco was 67.7% for the quarter ended September 30, 2018.

Adjusted and net earnings by segment as reported by Lifeco

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Canada					
Individual Customer	514	427	165	211	141
Group Customer	486	448	150	194	155
Canada Corporate ^[1]	(35)	(13)	-	(71)	-
	965	862	315	334	296
United States					
Financial Services	313	277	121	101	104
Asset Management	(32)	(16)	(8)	(8)	6
U.S. Corporate ^[1]	52	(2)	-	52	-
	333	259	113	145	110
Europe					
Insurance and Annuities	765	697	240	281	233
Reinsurance	288	123	87	97	(41)
Europe Corporate ^[1]	(35)	(7)	(8)	(23)	(7)
	1,018	813	319	355	185
Lifeco Corporate	(9)	(21)	(2)	(3)	(9)
Adjusted net earnings ^[2]	2,307	1,913	745	831	582
Other items ^[1]	(56)	(156)	(56)	-	(1)
Net earnings^[2]	2,251	1,757	689	831	581

[1] Other items represent amounts which have been excluded from the corporate business units of the Canada, U.S. and Europe segments. Refer to the "Other items" section.

[2] Attributable to Lifeco common shareholders.

2018 vs. 2017

Q3 2018 vs. Q3 2017 and Q2 2018

Net earnings

\$2,251 million or \$2.277 per share, compared with \$1,757 million or \$1.776 per share in the corresponding period in 2017, an increase of 28.2% on a per share basis.

Lifeco's net earnings in 2018 include a net positive impact of \$60 million after tax arising from the restructuring of U.S. financing completed in the second quarter, as a consequence of U.S. tax reform and refinancing of certain debt instruments.

\$689 million or \$0.697 per share, compared with \$581 million or \$0.587 per share in the corresponding period in 2017, an increase of 18.7% on a per share basis, and \$831 million or \$0.839 per share in the second quarter of 2018.

Lifeco's net earnings in the third quarter of 2017 included a provision of \$175 million after tax related to the impact of 2017 Atlantic hurricane activity, which reduced Lifeco's earnings per common share by \$0.177.

Adjusted net earnings

\$2,307 million or \$2.333 per share, compared with \$1,913 million or \$1.934 per share in the corresponding period in 2017, an increase of 20.6% on a per share basis.

\$745 million or \$0.754 per share, compared with \$582 million or \$0.589 per share in the corresponding period in 2017, an increase of 28.0% on a per share basis, and \$831 million or \$0.839 per share in the second quarter of 2018.

CANADA

Net earnings for the nine-month period ended September 30, 2018 increased by \$229 million to \$965 million, compared with the corresponding period in 2017. Adjusted net earnings in the nine-month period ended September 30, 2017 were \$862 million, and excluded Other items of \$126 million. There were no Other items in the nine-month period ended September 30, 2018.

Net earnings for the three-month period ended September 30, 2018 increased by \$19 million to \$315 million, compared with the corresponding quarter in 2017. There were no Other items in the three-month period ended September 30, 2017.

Individual Customer

Net earnings for the nine-month period ended September 30, 2018 increased by \$87 million to \$514 million, compared with the same period last year. The increase was primarily due to:

- Higher contributions from insurance contract liability basis changes; and
- More favourable policyholder behaviour experience;
- 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 three-month period ended September 30, 2018 increased by \$24 million to \$165 million, compared with 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;
- Partially offset by lower contributions from investment experience and less favourable mortality experience.

Group Customer

Net earnings for the nine-month period ended September 30, 2018 increased by \$38 million to \$486 million, compared with the same period last year. The increase was primarily due to:

- More favourable morbidity experience;
- Partially offset by lower contributions from investment experience.

Net earnings for the three-month period ended September 30, 2018 decreased by \$5 million to \$150 million, compared with the same quarter last year. The decrease was primarily due to:

- Lower contributions from insurance contract liability basis changes; and
- Lower contributions from investment experience;
- Partially offset by favourable morbidity experience.

UNITED STATES

Net earnings for the nine-month period ended September 30, 2018 increased by \$85 million to \$333 million, compared with the corresponding period in 2017. Adjusted net earnings in the nine-month period ended September 30, 2017 were \$259 million, and excluded Other items of \$11 million. There were no Other items in the nine-month period ended September 30, 2018.

Net earnings for the three-month period ended September 30, 2018 increased by \$3 million to \$113 million, compared with the corresponding quarter in 2017. There were no Other items in the three-month period ended September 30, 2017.

Financial Services

For the nine-month period ended September 30, 2018, net earnings were US\$243 million (C\$313 million), compared with US\$213 million (C\$277 million) in the corresponding period in 2017. The increase of US\$30 million 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;
- Partially offset by lower contributions from investment experience, higher operating expenses and less favourable mortality experience.

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 three-month period ended September 30, 2018, net earnings were US\$93 million (C\$121 million), compared with US\$83 million (C\$104 million) in the corresponding quarter in 2017. The increase of US\$10 million 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;
- Partially offset by less favourable mortality experience and higher operating expenses.

Asset Management

For the nine-month period ended September 30, 2018, net loss was US\$25 million (C\$32 million), compared with a net loss of US\$11 million (C\$16 million) in the corresponding period in 2017. The net loss in the third quarter of 2017 included a US\$7 million recovery related to the sale of a previously impaired investment product. Excluding this item, the net loss increased by US\$7 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 net loss for the nine-month period ended September 30, 2018 also includes financing and other expenses after tax of US\$31 million (C\$39 million). Financing and other expenses were comparable with the corresponding period in 2017 as lower financing costs were mostly offset by the impact of the reduction in the U.S. corporate tax rate.

For the three-month period ended September 30, 2018, net loss was US\$6 million (C\$8 million), compared with net earnings of US\$5 million (C\$6 million) in the corresponding quarter in 2017. Excluding the impact of the sale of an investment product discussed above, the net loss increased by US\$4 million, primarily due to:

- Lower net investment income;
- Partially offset by higher fee income driven by higher average assets under management, lower expenses and lower income taxes, driven by the impact of a reduction in the U.S. corporate tax rate.

The net loss in the third quarter of 2018 also includes financing and other expenses after tax of US\$9 million (C\$12 million), comparable with the corresponding quarter in 2017 as described above.

EUROPE

Net earnings for the nine-month period ended September 30, 2018 increased by \$168 million to \$962 million, compared with the corresponding period in 2017. Adjusted net earnings in the nine-month period ended September 30, 2018 were \$1,018 million, compared with \$813 million in the corresponding period in 2017, and excluded Other items, discussed below, of \$56 million (\$19 million in the corresponding period in 2017).

Net earnings for the three-month period ended September 30, 2018 increased by \$79 million to \$263 million, compared with the corresponding quarter in 2017. Adjusted net earnings in the three-month period ended September 30, 2018 were \$319 million, compared with \$185 million in the corresponding period in 2017, and excluded Other items, discussed below, of \$56 million (\$1 million in the corresponding period in 2017).

Insurance and Annuities

Net earnings for the nine-month period ended September 30, 2018 increased by \$68 million to \$765 million, compared with the same period last year. The increase was primarily due to:

- More favourable mortality and morbidity experience; and
- 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;
- Partially offset by lower contributions from investment experience and a gain on the sale of Lifeco's Allianz Ireland holdings in the first quarter of 2017.

Net earnings for the three-month period ended September 30, 2018 increased by \$7 million to \$240 million, compared with the same quarter last year. The increase was 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.

Reinsurance

Net earnings for the nine-month period ended September 30, 2018 increased by \$165 million to \$288 million, compared with the same period last year. The third quarter of 2017 results included a provision of \$175 million related to the impact of 2017 hurricane activity. Excluding this item, net earnings decreased by \$10 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.

Net earnings for the three-month period ended September 30, 2018 increased by \$128 million to \$87 million, compared with the same quarter last year. Excluding the prior year provision discussed above, net earnings decreased by \$47 million, primarily due to the same reasons as in the nine-month period.

OTHER ITEMS

There were no Other items in the first two quarters of 2018. In the third quarter of 2018, Other items of \$56 million after tax consisted of:

- Restructuring charges related 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 Assurance Society Limited announced during the second quarter of 2018. These restructuring charges reduced Lifeco's net earnings by \$56 million and include the costs of decommissioning the existing U.K. operations' 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. 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 the first three quarters of 2017, Other items were \$156 million, and consisted mainly of:

First quarter

- Restructuring charges of \$28 million related to the Financial Services business in the U.S. segment and integration activities in the Insurance and Annuities business in Europe.

Second quarter

- Restructuring charges of \$127 million mainly related to Lifeco's realignment of its Canadian operations.

Third quarter

- Restructuring charges of \$1 million mainly related to the Irish retail business.

The information above has been derived from Lifeco's interim MD&A; see Part C of this MD&A for additional information on Lifeco's results.

IGM FINANCIAL

Contribution to Power Financial

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Contribution to Power Financial's ^[1] :					
Adjusted net earnings					
As reported by IGM	376	330	137	125	107
Consolidation entries ^[2]	(19)	(8)	(8)	(4)	(5)
	357	322	129	121	102
Other items	(16)	8	(16)	-	-
Net earnings	341	330	113	121	102

[1] The average direct ownership of Power Financial in IGM was 61.4% for the quarter ended September 30, 2018.

[2] Contribution to Power Financial includes an adjustment in accordance with IAS 39 and the allocation of the results of Wealthsimple and Portag3.

Adjusted and net earnings by segment as reported by IGM (in accordance with IFRS 9)

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
IG Wealth Management	594	554	214	197	181
Mackenzie	143	130	52	49	45
Corporate and other	143	100	50	47	32
Adjusted net earnings (before interest, income taxes, preferred share dividends and other) ^[1]	880	784	316	293	258
Interest expense, income taxes, preferred share dividends and other	(268)	(248)	(93)	(90)	(85)
Adjusted net earnings ^[2]	612	536	223	203	173
Other items ^[3]	(25)	15	(25)	-	-
Net earnings^[2]	587	551	198	203	173

[1] Non-IFRS financial measures described in Part D of this MD&A.

[2] Available to IGM common shareholders.

[3] IGM does not allocate Other items to segments.

2018 vs. 2017

Q3 2018 vs. Q3 2017 and Q2 2018

Net earnings

\$587 million or \$2.44 per share, compared with \$551 million or \$2.29 per share in the corresponding period in 2017, an increase of 6.6% on a per share basis.

\$198 million or \$0.82 per share, compared with \$173 million or \$0.72 per share in the corresponding period in 2017, an increase of 13.9% on a per share basis, and \$203 million or \$0.85 per share in the second quarter of 2018.

Adjusted net earnings

\$612 million or \$2.54 per share, compared with \$536 million or \$2.23 per share in the corresponding period in 2017, an increase of 13.9% on a per share basis.

\$223 million or \$0.92 per share, compared with \$173 million or \$0.72 per share in the corresponding period in 2017, an increase of 27.8% on a per share basis, and \$203 million or \$0.85 per share in the second quarter of 2018.

On January 1, 2018, IGM adopted IFRS 9, *Financial Instruments*. IGM elected not to restate its comparative financial information for the effect of applying IFRS 9. The cumulative impact of applying IFRS 9 has been recognized as an adjustment to the opening retained earnings on January 1, 2018.

Mortgage loans of \$282.6 million previously classified as held for trading were reclassified to amortized cost as a result of IGM's business model and contractual cash flow characteristics assessment. This resulted in a total remeasurement of \$49.7 million due to the reversal of unrealized losses included in the carrying value of the loans and the capitalization of previously expensed mortgage issue costs.

Other investments of \$19.9 million were reclassified from available for sale to fair value through profit or loss (FVPL), and IGM elected to classify other investments of \$262.8 million at fair value through other comprehensive income (FVOCI). These reclassifications had no impact on opening retained earnings.

Power Financial has deferred the adoption of IFRS 9 and continues to apply IAS 39, *Financial Instruments: Recognition and Measurement*. As such, the contribution to Power Financial includes an adjustment to reverse the impact of the application of IFRS 9 by IGM.

Adjusted net earnings exclude charges of \$25 million in the nine-month period ended September 30, 2018. These Other items are not allocated to segments. The following is a summary of each segment's net earnings:

IG WEALTH MANAGEMENT

Net earnings increased by \$40 million in the nine-month period ended September 30, 2018, compared with the corresponding period in 2017, due to:

- An increase in income from management fees of \$53 million to \$1,101 million. The increase was primarily due to an increase in average assets under management of 5.4%, partially offset by a slight decline in the average management fee rate;
- Expenses in the nine-month period were \$905 million, a decrease of \$21 million mainly related to a decrease in commission expenses of \$64 million, offset by an increase in asset-based compensation of \$42 million. The decrease in commission expenses was primarily due to the treatment of commission expenses as a result of the adoption of IFRS 15 (refer to the section "Adoption of IFRS 15");
- Partially offset by a decrease in distribution fee income of \$19 million to \$126 million, mainly due to a decrease in distribution fee income from insurance products and lower redemption fees, and a decrease in administration fee income of \$6 million, primarily due to the movement of assets into unbundled products which are not charged certain administration fees and changes in the composition of average assets under management; and
- A decrease in net investment income of \$10 million to \$36 million primarily related to changes in mortgage banking income. Net interest income on securitized loans decreased due to lower margins on the loans as a result of the impact from the adoption of IFRS 9 and gains realized on the sales of residential mortgages decreased as a result of lower sales activity. These decreases were partially offset by lower negative fair value adjustments in 2018 on loans held. Other net investment income increased by \$9.1 million primarily due to the adoption of IFRS 9 where issue costs for securitized loans previously expensed as incurred are now amortized over the life of the related loans.

Net earnings increased by \$33 million in the three-month period ended September 30, 2018, compared with the corresponding quarter in 2017, primarily due to:

- An increase in income from management fees of \$22 million to \$375 million. The increase was primarily due to an increase in total average assets under management of 6.7%;
- An increase in net investment income of \$8 million to \$13 million, primarily due to a decrease in negative fair value adjustments in 2018 on loans held, partially offset by a decrease in net interest income as explained above;
- Expenses in the three-month period were \$297 million, a decrease of \$1 million, in line with the net decrease in the nine-month period described above;

MACKENZIE

Net earnings increased by \$13 million in the nine-month period ended September 30, 2018, compared with the corresponding period in 2017, due to:

- An increase in management fee revenue due to an increase in average assets under management of 10.9%, partially offset by a decline in the average management fee rate;
- An increase in net investment income of \$3 million which primarily relates to returns on proprietary funds; and
- A decrease in expenses of \$2 million due to lower commission expenses as a result of the adoption of IFRS 15. This was offset by an increase in trailing commissions resulting from a period-over-period increase in average mutual fund assets offset, in part, by a decline in the effective trailing commission rate.

Net earnings increased by \$7 million in the three-month period ended September 30, 2018, compared with the corresponding quarter in 2017, due to:

- An increase in management fee revenue of \$3 million due to an increase in average assets under management of 12.6%, partially offset by a decline in the average management fee rate; and
- A decrease in expenses of \$5 million due to a decrease of commission expenses offset by an increase in trailing commissions as described above. Non-commission expenses decreased by \$4 million and relate to the administration, marketing and management of its assets under management.

ASSETS AND INVESTMENT FUND ASSETS UNDER MANAGEMENT

Total assets under management were as follows:

(In billions of dollars)	September 30, 2018	June 30, 2018	September 30, 2017	June 30, 2017
IG Wealth Management	89.0	88.8	85.2	84.3
Mackenzie ^[1]	67.3	67.0	60.8	60.4
Corporate and other ^[2]	3.4	3.3	4.0	3.9
Total	159.7	159.1	150.0	148.6

[1] Effective October 1, 2017, the Mackenzie segment has been redefined to exclude advisory mandates to IG Wealth Management from assets under management; the comparatives have been restated to reflect this change.

[2] Includes Investment Planning Counsel's assets under management less an adjustment for assets subadvised by Mackenzie on behalf of other segments.

Total average daily investment fund assets under management were as follows:

(In billions of dollars)	2018			2017			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
IG Wealth Management	89.4	88.0	87.8	87.2	83.8	85.0	82.8
Mackenzie ^[1]	59.5	57.9	57.1	55.8	53.4	54.1	52.3
Corporate and other ^[2]	5.1	5.0	5.2	5.1	5.2	5.2	5.0
Total	154.0	150.9	150.1	148.1	142.4	144.3	140.1

[1] Effective October 1, 2017, the Mackenzie segment has been redefined to exclude advisory mandates to IG Wealth Management from assets under management; the comparatives have been restated to reflect this change.

[2] Includes Investment Planning Counsel's assets under management less an adjustment for assets subadvised by Mackenzie on behalf of other segments.

OTHER ITEMS

There were no Other items in the first two quarters of 2018. In the third quarter of 2018, Other items of \$25 million after tax consisted mainly of:

- Restructuring and other charges of \$17 million: resulting from the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve IGM's offerings and operational effectiveness.
- A premium paid of \$8 million: on early redemption of the \$375 million 7.35% debentures on August 10, 2018.

There were no Other items in the first and third quarters of 2017. In the second quarter of 2017, Other items of \$15 million after tax consisted mainly of:

- Restructuring and other charges of \$17 million: severance and termination costs largely associated with the reduction of IGM's regional office footprint.
- Change related to pension plan of \$37 million: favourable revaluation of IGM's registered pension plan obligation reflecting a new policy which limits the possibility of certain benefit increases in the future.
- IGM's proportionate share of Lifeco's Other items of \$5 million.

The information above has been derived from IGM's interim MD&A; see Part D of this MD&A for more information on IGM's results.

PARGESA

Contribution to Power Financial

(In millions of Canadian dollars)	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Contribution to Power Financial's ^[1] :					
Adjusted net earnings					
As reported by Pargesa	95	128	16	57	36
Consolidation entries ^[2]	(3)	-	(4)	(21)	-
	92	128	12	36	36
Other items	-	-	-	-	(2)
Net earnings	92	128	12	36	34

[1] The average ownership of Power Financial in Pargesa was 27.8% for the quarter ended September 30, 2018.

[2] The Corporation has not adopted IFRS 9. The contribution to Power Financial includes an adjustment to account for Pargesa under IAS 39 as described below.

Adjusted and net earnings as reported by Pargesa (in accordance with IFRS 9)

(In millions of Swiss francs)	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Contribution from the portfolio to adjusted net earnings					
Share of earnings of:					
Imerys	100	90	32	37	33
Parques	(3)	-	-	(3)	-
Dividends:					
LafargeHolcim	58	60	-	58	-
SGS	50	46	-	-	-
adidas	21	15	-	21	-
Umicore	18	14	9	9	7
Total	16	15	6	10	5
Pernod Ricard	12	11	-	12	-
GEA	6	1	-	6	-
Ontex	6	5	-	6	-
Other ^[1]	1	5	1	-	3
Contribution from private equity activities and other investment funds	20	124	9	15	64
	305	386	57	171	112
Net financing income (charges)	(21)	(15)	(8)	(7)	(7)
General expenses and taxes	(24)	(23)	(7)	(8)	(7)
Adjusted net earnings ^[2, 3]	260	348	42	156	98
Other items	(9)	1	(4)	(4)	(2)
Net earnings^[3]	251	349	38	152	96

[1] Consists of dividends from other investments and Parques. At the end of 2017, the investment in Parques was reclassified from available for sale to an associate and is now accounted for using the equity method.

[2] Described as "Economic operating income" in Part E of this MD&A.

[3] Attributable to Pargesa shareholders.

2018 vs. 2017

Q3 2018 vs. Q3 2017 and Q2 2018

Net earnings

SF251 million, compared with SF349 million in the corresponding period in 2017, a decrease of 28.1%.

SF38 million, compared with SF96 million in the corresponding period in 2017, a decrease of 60.4%, and SF152 million in the second quarter of 2018.

Adjusted net earnings

SF260 million, compared with SF348 million in the corresponding period in 2017, a decrease of 25.3%.

SF42 million, compared with SF98 million in the corresponding period in 2017, a decrease of 57.1%, and SF156 million in the second quarter of 2018.

On January 1, 2018, Pargesa adopted IFRS 9, *Financial Instruments*, and reclassified the majority of its publicly traded portfolio, previously accounted for as available-for-sale investments, to investments classified as fair value through other comprehensive income (FVOCI). The FVOCI is an elective classification for equity instruments in which all fair value changes remain permanently in OCI.

Those investments in private equity and other investment funds that were previously accounted for as available-for-sale investments were reclassified to fair value through profit or loss (FVPL). The transition requirements of IFRS 9 require that all unrealized gains and losses on investments previously classified as available for sale remain permanently in equity. Subsequent to January 1, 2018, changes in fair value are recorded in earnings.

As noted above, Power Financial has deferred the adoption of IFRS 9 and continues to apply IAS 39. The following table presents adjustments to the contribution to Power Financial in accordance with IAS 39:

(In millions of dollars)	2018			Total
	Q3	Q2	Q1	
Disposal of Burberry ^[1]	-	18	-	18
Impairment charges on Ontex ^[2]	(2)	(34)	-	(36)
Disposal of private equity funds ^[3]	-	-	21	21
Unrealized gains (losses) on private equity funds ^[4]	(2)	(5)	1	(6)
Total	(4)	(21)	22	(3)

[1] During the second quarter, the investment in Burberry was disposed of resulting in a gain of SF40 million. This gain was not reflected in Pargesa's earnings as it is classified as FVOCI;

[2] During the second quarter, the share price of Ontex decreased to €18.81 from a cost of €27.62, which would have resulted in an impairment charge of SF87 million under IAS 39. Under IFRS 9, Pargesa classifies its investment in Ontex as FVOCI and as a result, the impairment charge was not recognized in earnings. Power Financial's share of the impairment in the second quarter was \$34 million.

At the end of the third quarter, the share price of Ontex decreased to €18.35; a further impairment charge of \$2 million was recognized by Power Financial, relating to its share of the impairment;

[3] During the first quarter, two investments held through private equity funds, classified as FVPL in accordance with IFRS 9, were disposed of, which resulted in gains of SF57 million. These realized gains have not been reflected in Pargesa's earnings as the investments were reclassified from available for sale to FVPL on January 1, 2018. As described above, on transition, the related unrealized gains recorded in other comprehensive income were transferred permanently to retained earnings;

[4] During the first three quarters of 2018, Pargesa recognized SF14 million of net unrealized gains in earnings related to changes in fair value of their private equity funds. These gains are not recognized by Power Financial as it continues to classify these private equity funds as available for sale in accordance with IAS 39.

Other than the share of earnings of Imerys, a significant portion of Pargesa's adjusted net earnings is composed of dividends from its non-consolidated investments, which are usually declared as follows:

- | | |
|--|--|
| <ul style="list-style-type: none"> ▪ LafargeHolcim (second quarter) ▪ SGS (first quarter) ▪ Pernod Ricard (second and fourth quarters) ▪ Total (second, third and fourth quarters) | <ul style="list-style-type: none"> ▪ adidas (second quarter) ▪ Umicore (second and third quarters) ▪ Ontex (second quarter) ▪ GEA (second quarter) |
|--|--|

RESULTS

Net earnings in the nine-month period ended September 30, 2018 decreased by SF98 million to SF251 million, compared with the corresponding period in 2017, mainly due to:

- A decrease in the contribution from private equity activities and other investment funds of SF104 million. The decrease is mainly due to the adoption of IFRS 9 by Pargesa, resulting in gains of SF57 million realized during the first quarter on the disposal of investments not reflected in earnings. In 2017, realized gains of SF123 million were related to the disposal of two private equity investments; and
- An increase in net financing charges of SF6 million from the corresponding period in 2017 to SF21 million mainly due to a decrease in income from trading and derivative activities of GBL in managing its portfolio of SF7 million, partially offset by the net impact of fair value adjustments to derivative instruments.
- Partially offset by an increase in the contribution from Imerys of SF10 million from SF90 million to SF100 million at September 30, 2018; and
- An increase in dividends from its principal holdings of SF16 million to SF188 million compared with SF172 million in the corresponding period in 2017. The increase in dividends is primarily due to the increase in dividends per share paid by most of the portfolio companies, additional investments made in Umicore and GEA as well as a higher Euro/SF average exchange rate.

Net earnings in the three-month period ended September 30, 2018 decreased by SF58 million to SF38 million, compared with the corresponding quarter in 2017, mainly due to a decrease in the contribution from private equity activities and other investment funds of SF55 million to SF9 million, as explained above.

OTHER ITEMS

There were no significant Other items in the first three quarters of 2018 and 2017.

AVERAGE EXCHANGE RATES

The average exchange rates for the nine-month and three-month periods ended September 30, 2018 and 2017 were as follows:

	Nine months ended			Three months ended		
	September 30, 2018	September 30, 2017	Change %	September 30, 2018	September 30, 2017	Change %
Euro/SF	1.161	1.095	6.0	1.144	1.131	1.1
SF/CAD	1.324	1.329	(0.4)	1.328	1.301	2.1

The information above has been derived from Pargesa's third quarter of 2018 press release; see Part E of this MD&A for additional information on Pargesa's results.

CORPORATE OPERATIONS

Corporate operations include income (loss) from investments, operating expenses, financing charges, depreciation and income taxes.

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Income (loss) from investments ^[1]	(7)	23	(7)	1	(4)
Operating and other expenses					
Operating expenses	(61)	(61)	(20)	(21)	(20)
Financing charges	(13)	(13)	(4)	(5)	(4)
Depreciation	(1)	(1)	-	-	-
Income taxes	(1)	(3)	-	(1)	-
	(76)	(78)	(24)	(27)	(24)
Corporate operations	(83)	(55)	(31)	(26)	(28)

[1] During the second quarter of 2017, Power Financial attained control of Wealthsimple and recognized a gain reflecting the Corporation's investment at fair value.

OTHER ITEMS (NOT INCLUDED IN ADJUSTED NET EARNINGS)

The following table presents the Corporation's share of Other items:

	Nine months ended		Three months ended		
	September 30, 2018	September 30, 2017	September 30, 2018	June 30, 2018	September 30, 2017
Lifeco					
Restructuring charges	(38)	(104)	(38)	-	-
Share of IGM's other items	(1)	-	(1)	-	-
	(39)	(104)	(39)	-	-
IGM					
Restructuring and other charges	(10)	(10)	(10)	-	-
Premium paid on early redemption of debentures	(5)	-	(5)	-	-
Pension plan	-	22	-	-	-
Share of Lifeco's other items	(1)	(4)	(1)	-	-
	(16)	8	(16)	-	-
Pargesa					
Other income (charge)	-	-	-	-	(2)
	(55)	(96)	(55)	-	(2)

For additional information, refer to the respective Lifeco, IGM or Pargesa "Other items" sections above.

Financial Position

CONSOLIDATED BALANCE SHEETS (CONDENSED)

The condensed balance sheets of Lifeco and IGM, and Power Financial's non-consolidated balance sheet are presented below. This table reconciles the non-consolidated balance sheet, which is not in accordance with IFRS, with the condensed consolidated balance sheet of the Corporation at September 30, 2018.

	Power Financial	Lifeco	IGM	Consolidation adjustments and other ^[1]	Power Financial Consolidated balance sheets	
					September 30, 2018	December 31, 2017
Assets						
Cash and cash equivalents	1,041	3,882	587	(245)	5,265	5,321
Investments	161	168,899	8,163	(134)	177,089	172,345
Investment - Lifeco	14,532	-	967	(15,499)	-	-
Investment - IGM	2,648	346	-	(2,994)	-	-
Investment - Parjointco	3,574	-	-	-	3,574	3,354
Investments - other jointly controlled corporations and associates	-	6	641	24	671	662
Funds held by ceding insurers	-	9,145	-	-	9,145	9,893
Reinsurance assets	-	5,895	-	-	5,895	5,045
Other assets	137	10,352	1,092	(1)	11,580	10,919
Intangible assets	-	3,849	1,289	61	5,199	5,748
Goodwill	-	6,501	2,660	738	9,899	9,580
Investments on account of segregated fund policyholders	-	220,207	-	-	220,207	217,357
Total assets	22,093	429,082	15,399	(18,050)	448,524	440,224
Liabilities						
Insurance and investment contract liabilities	-	165,098	-	-	165,098	161,365
Obligations to securitization entities	-	-	7,358	-	7,358	7,596
Debentures and other debt instruments	250	5,926	1,850	(73)	7,953	7,968
Other liabilities	552	11,227	1,640	36	13,455	12,414
Insurance and investment contracts on account of segregated fund policyholders	-	220,207	-	-	220,207	217,357
Total liabilities	802	402,458	10,848	(37)	414,071	406,700
Equity						
Perpetual preferred shares	2,830	2,714	150	(2,864)	2,830	2,830
Common shareholders' equity ^[2]	18,461	21,004	4,401	(25,405)	18,461	17,683
Non-controlling interests ^[3, 4]	-	2,906	-	10,256	13,162	13,011
Total equity	21,291	26,624	4,551	(18,013)	34,453	33,524
Total liabilities and equity	22,093	429,082	15,399	(18,050)	448,524	440,224

[1] Consolidation adjustments and other includes Portag3 and Wealthsimple, as well as consolidation entries.

[2] Opening retained earnings were decreased by \$360 million as a result of the adoption of IFRS 15; refer to the "Adoption of IFRS 15" section for more details.

[3] Lifeco's non-controlling interests include the Participating Account surplus in subsidiaries.

[4] Non-controlling interests in consolidation adjustments represents non-controlling interests in the equity of Lifeco, IGM and Wealthsimple.

Total assets of the Corporation increased to \$448.5 billion at September 30, 2018, compared with \$440.2 billion at December 31, 2017, mainly due to the positive market and currency movement, as well as new business growth of Lifeco.

Liabilities increased to \$414.1 billion at September 30, 2018, compared with \$406.7 billion at December 31, 2017, mainly due to the following, as disclosed by Lifeco:

- 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.

Parts C and D of this MD&A include a discussion of the consolidated balance sheets of Lifeco and IGM, respectively.

NON-CONSOLIDATED BALANCE SHEETS

In the non-consolidated basis of presentation shown below, Lifeco and IGM are presented by the Corporation using the equity method. These non-consolidated balance sheets, which are not in accordance with IFRS, enhance the MD&A and assist the reader by identifying changes in Power Financial's non-consolidated balance sheets.

	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents ^[1]	1,041	1,054
Investments		
Lifeco	14,532	13,772
IGM	2,648	2,865
Parjointco	3,574	3,354
Other ^[2]	161	142
Other assets	137	122
Total assets	22,093	21,309
Liabilities		
Debentures	250	250
Other liabilities	552	546
Total liabilities	802	796
Equity		
Perpetual preferred shares	2,830	2,830
Common shareholders' equity	18,461	17,683
Total equity	21,291	20,513
Total liabilities and equity	22,093	21,309

[1] Cash equivalents include \$289 million (\$281 million at December 31, 2017) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified as investments in the Consolidated Financial Statements.

[2] Includes Power Financial's investments in Portag3 and Wealthsimple presented using the equity method.

Cash and cash equivalents

Cash and cash equivalents held by Power Financial amounted to \$1,041 million at September 30, 2018, compared with \$1,054 million at the end of December 2017. The third quarter dividends declared by the Corporation and paid on November 1, 2018 are included in other liabilities and amounted to \$344 million. Dividends declared in the third quarter by IGM and received by the Corporation on October 31, 2018 are included in other assets and amounted to \$83 million (see "Non-consolidated Statements of Cash Flows" below for details).

Investments in Lifeco, IGM and Parjointco

The carrying value of Power Financial's investments in Lifeco, IGM and Parjointco, accounted for using the equity method, increased to \$20,754 million at September 30, 2018, compared with \$19,991 million at December 31, 2017:

	Lifeco	IGM	Parjointco	Total
Carrying value, at the beginning of the year	13,772	2,865	3,354	19,991
Change in accounting policy ^[1]	(42)	(318)	-	(360)
Restated carrying value, at the beginning of the year	13,730	2,547	3,354	19,631
Share of adjusted net earnings	1,560	357	92	2,009
Share of other items	(39)	(16)	-	(55)
Share of other comprehensive income	111	8	211	330
Dividends	(781)	(250)	(75)	(1,106)
Other ^[2]	(49)	2	(8)	(55)
Carrying value, at September 30, 2018	14,532	2,648	3,574	20,754

[1] Refer to the "Adoption of IFRS 15" section for more details.

[2] Mainly related to the effect of change in ownership in a subsidiary of Lifeco.

EQUITY**Preferred shares**

Preferred shares of the Corporation consist of 11 series of Non-Cumulative Fixed Rate First Preferred Shares, two series of Non-Cumulative 5-Year Rate Reset First Preferred Shares, and two series of Non-Cumulative Floating Rate First Preferred Shares, with an aggregate stated capital of \$2,830 million at September 30, 2018 (same as at December 31, 2017). All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

The terms and conditions of the outstanding First Preferred Shares are described in Note 17 to the Corporation's 2017 Consolidated Financial Statements.

Common shareholders' equity

Common shareholders' equity was \$18,461 million at September 30, 2018, compared with \$17,683 million at December 31, 2017:

Nine months ended September 30	2018	2017
Common shareholders' equity, at the beginning of the year	17,683	16,901
Change in accounting policy ^[1]	(360)	-
Restated common shareholders' equity, at the beginning of the year	17,323	16,901
Changes in retained earnings		
Net earnings before dividends on perpetual preferred shares	1,871	1,591
Dividends declared	(1,031)	(982)
Effects of changes in capital and ownership of subsidiaries, and other	(53)	20
	787	629
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	70	(550)
Investment revaluation and cash flow hedges	(86)	163
Actuarial gains (losses) on defined benefit plans	160	5
Share of Pargesa and other associates	201	391
Share-based compensation	(1)	(8)
	344	1
Issuance of common shares (225,000 shares in 2018 and 219,039 shares in 2017) under the Corporation's Employee Stock Option Plan	7	8
Common shareholders' equity, at September 30	18,461	17,539

[1] Refer to the "Adoption of IFRS 15" section for more details.

The book value per common share of the Corporation was \$25.85 at September 30, 2018, compared with \$24.77 at the end of 2017.

Outstanding number of common shares

At the date of this MD&A, there were 714,096,479 common shares of the Corporation outstanding, compared with 713,871,479 at December 31, 2017. At the date of this MD&A, options were outstanding to purchase up to an aggregate of 11,292,625 common shares of the Corporation under the Corporation's Employee Stock Option Plan.

Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)

The condensed cash flows of Lifeco and IGM, and Power Financial's non-consolidated cash flows, are presented below. This table reconciles the non-consolidated statement of cash flows, which is not in accordance with IFRS, to the condensed consolidated statement of cash flows of the Corporation for the nine-month period ended September 30, 2018.

	Power Financial	Lifeco	IGM	Consolidation adjustments and other	Power Financial Consolidated	
					2018	2017
Nine months ended September 30						
Cash flows from:						
Operating activities	1,031	4,929	581	(1,140)	5,401	4,833
Financing activities	(1,009)	(1,007)	(1,025)	1,094	(1,947)	(1,310)
Investing activities	(35)	(3,606)	64	52	(3,525)	(3,358)
Effect of changes in exchange rates on cash and cash equivalents	-	15	-	-	15	(69)
Increase (decrease) in cash and cash equivalents	(13)	331	(380)	6	(56)	96
Cash and cash equivalents, at the beginning of the year	1,054	3,551	967	(251)	5,321	4,396
Cash and cash equivalents, at September 30	1,041	3,882	587	(245)	5,265	4,492

Consolidated cash and cash equivalents decreased by \$56 million in the nine-month period ended September 30, 2018, compared with an increase of \$96 million in the corresponding period in 2017.

Operating activities produced a net inflow of \$5,401 million in the nine-month period ended September 30, 2018, compared with a net inflow of \$4,833 million in the corresponding period in 2017.

Cash flows from financing activities, which include dividends paid on the common and preferred shares of the Corporation and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of \$1,947 million in the nine-month period ended September 30, 2018, compared with a net outflow of \$1,310 million in the corresponding period in 2017.

Cash flows from investing activities resulted in a net outflow of \$3,525 million in the nine-month period ended September 30, 2018, compared with a net outflow of \$3,358 million in the corresponding period in 2017.

The Corporation increased its level of fixed income securities with maturities of more than three months, resulting in a net outflow of \$8 million in the nine-month period ended September 30, 2018, compared with a net inflow of \$26 million in the corresponding period in 2017.

Parts C and D of this MD&A include a discussion of the cash flows of Lifeco and IGM, respectively.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

As Power Financial is a holding company, corporate cash flows are primarily comprised of dividends received from Lifeco, IGM and Parjointco and income (loss) from cash and cash equivalents, less operating expenses, financing charges, income taxes, and preferred and common share dividends.

The following non-consolidated statements of cash flows of the Corporation, which are not presented in accordance with IFRS, have been prepared to assist the reader as they isolate the cash flows of Power Financial, the parent company.

Nine months ended September 30	2018	2017
Operating activities		
Dividends		
Lifeco	781	737
IGM	250	250
Pargesa	75	78
	1,106	1,065
Corporate operations, net of non-cash items	(75)	(70)
	1,031	995
Financing activities		
Dividends paid on perpetual preferred shares	(103)	(93)
Dividends paid on common shares	(913)	(868)
Issuance of perpetual preferred shares	-	250
Issuance of common shares	7	7
Other (including share issue costs)	-	(7)
	(1,009)	(711)
Investing activities		
Investments in Portag3 and Wealthsimple	(35)	(21)
Purchase of other investments and other	-	(40)
	(35)	(61)
Increase (decrease) in cash and cash equivalents	(13)	223
Cash and cash equivalents, at the beginning of the year	1,054	842
Cash and cash equivalents, at September 30	1,041	1,065

On a non-consolidated basis, cash and cash equivalents decreased by \$13 million in the nine-month period ended September 30, 2018, compared with an increase of \$223 million in the corresponding period in 2017.

Operating activities resulted in a net inflow of \$1,031 million in the nine-month period ended September 30, 2018, compared with a net inflow of \$995 million in the corresponding period in 2017.

- Dividends paid by Lifeco on its common shares during the nine-month period ended September 30, 2018 were \$1.167 per share, compared with \$1.101 per share in the corresponding period in 2017. In the nine-month period ended September 30, 2018, the Corporation received dividends from Lifeco of \$781 million, compared with \$737 million in the corresponding period in 2017.
- Dividends paid by IGM on its common shares during the nine-month period ended September 30, 2018 were \$1.6875 per share, the same as in the corresponding period in 2017. In the nine-month period ended September 30, 2018, the Corporation received dividends from IGM of \$250 million, the same as in the corresponding period in 2017.
- Pargesa declares and pays an annual dividend in the second quarter. The dividend paid by Pargesa to Parjointco in 2018 amounted to SF2.50 per bearer share, compared with SF2.44 in 2017. The Corporation received dividends of \$75 million (SF59 million) from Parjointco in 2018, compared with \$78 million (SF57 million) in 2017.

The Corporation's financing activities during the nine-month period ended September 30, 2018 were a net outflow of \$1,009 million, compared with a net outflow of \$711 million in the corresponding period in 2017, and included:

- Dividends paid on preferred and common shares by the Corporation of \$1,016 million, compared with \$961 million in the corresponding period in 2017. In the nine-month period ended September 30, 2018, dividends paid on the Corporation's common shares were \$1.2785 per share, compared with \$1.2175 per share in the corresponding period in 2017.
- In 2017, the Corporation issued perpetual preferred shares of \$250 million.
- Common shares issued of \$7 million for employee stock options exercised in the period, the same as in the corresponding period in 2017.

The Corporation's investing activities during the nine-month period ended September 30, 2018 were a net outflow of \$35 million, compared with a net outflow of \$61 million in the corresponding period in 2017.

Capital Management

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

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

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

The Board of Directors of the Corporation is responsible for capital management. Management of the Corporation is responsible for establishing capital management procedures and for implementing and monitoring its capital plans. The Board of Directors of the Corporation reviews and approves capital transactions such as the issuance, redemption and repurchase of common shares, perpetual preferred shares and debentures. The boards of directors of the Corporation's subsidiaries, as well as those of Pargesa and GBL, oversee and have responsibility for their respective company's capital management.

With the exception of debentures and other debt instruments, the Corporation's capital is permanent, matching the long-term nature of its investments. The capital structure of the Corporation consists of: debentures, perpetual preferred shares, common shareholders' equity, and non-controlling interests. The Corporation views perpetual preferred shares as a cost-effective source of permanent capital.

The Corporation's consolidated capitalization includes the debentures, preferred shares and other debt instruments issued by its consolidated subsidiaries. Debentures and other debt instruments issued by Lifeco and IGM are non-recourse to the Corporation. The Corporation does not guarantee debt issued by its subsidiaries. Perpetual preferred shares and total equity accounted for 81% of consolidated capitalization at September 30, 2018.

	September 30, 2018	December 31, 2017
Debentures and other debt instruments		
Power Financial	250	250
Lifeco	5,926	5,617
IGM	1,850	2,175
Consolidation adjustments	(73)	(74)
	7,703	7,718
	7,953	7,968
Preferred shares		
Power Financial	2,830	2,830
Lifeco	2,714	2,714
IGM	150	150
	2,864	2,864
	5,694	5,694
Equity		
Common shareholders' equity	18,461	17,683
Non-controlling interests ^[1]	10,298	10,147
	28,759	27,830
	42,406	41,492

[1] Represents the non-controlling equity interests of the Corporation's subsidiaries excluding Lifeco and IGM's preferred shares, which are shown in this table as preferred shares.

Power Financial

- The Corporation filed a short-form base shelf prospectus dated December 7, 2016, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of \$3 billion of First Preferred Shares, common shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.

Lifeco

- On February 28, 2018, Lifeco issued \$500 million of 10-year 3.337% debentures.
- On March 21, 2018, Lifeco's 6.14% \$200 million debenture notes matured at their principal amount together with accrued interest.
- On May 17, 2018, Great-West Lifeco Finance 2018, LP, a subsidiary of Lifeco, issued \$384 million (US\$300 million) 4.047% senior notes due May 17, 2028 and \$640 million (US\$500 million) 4.581% senior notes due May 17, 2048.
- On June 18, 2018, Great-West Life & Annuity Insurance Capital, LP, a subsidiary of Lifeco, redeemed all \$399 million (US\$300 million) aggregate principal amount of its 2.538% plus 3-month LIBOR unsecured subordinated debentures due May 16, 2046.
- On June 26, 2018, Great-West Lifeco Finance (Delaware) LP, a subsidiary of Lifeco, redeemed all \$500 million principal amount of its 7.127% subordinated debentures due June 26, 2048 at a redemption price equal to 100% of the principal amount of the debentures, plus any accrued interest up to but excluding the redemption date.

IGM

- On March 7, 2018, IGM repaid on maturity its \$150 million 2003 Series 6.58% debentures.
- On July 11, 2018, IGM issued \$200 million of 4.174% debentures maturing July 13, 2048. On August 10, 2018, the net proceeds were used by IGM, together with a portion of its existing internal cash resources, to fund the early redemption of all of its \$375 million 7.35% debentures due April 8, 2019. A premium of \$11 million was paid by IGM on the early redemption.

The Corporation itself is not subject to externally imposed regulatory capital requirements; however, Lifeco and certain of its main subsidiaries and IGM's subsidiaries are subject to regulatory capital requirements. Parts C and D of this MD&A further describe the capital management activities of Lifeco and IGM, respectively.

RATINGS

The current rating by Standard & Poor's (S&P) of the Corporation's debentures is "A+" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Corporation's debentures is "A (High)" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites. These ratings are not a recommendation to buy, sell or hold the securities of a corporation and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The "A+" rating assigned to the Corporation's debentures by S&P is the fifth highest of the 22 ratings used for long-term debt. A long-term debenture rated "A+" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

The "A (High)" rating assigned to the Corporation's debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. A long-term debenture rated "A (High)" implies that the capacity for repayment is substantial, but of lesser credit quality than AA, and may be vulnerable to future events, although qualifying negative factors are considered manageable.

Risk Management

Power Financial is a diversified international management and holding company with interests in the financial services, asset management and other business sectors. Its principal holdings are a controlling interest in each of Lifeco and IGM and a joint controlling interest in Parjointco, which itself holds a controlling interest in GBL through Pargesa. As a result, the Corporation bears the risks associated with being a significant shareholder of these operating companies. A complete description of these risks is presented in their public disclosures. The respective boards of directors of Lifeco, IGM, Pargesa and GBL are responsible for the risk oversight function at their respective companies. The risk committee of the board of directors of Lifeco is responsible for its risk oversight, and the board of directors of IGM provides oversight and carries out its risk management mandate through various committees. Certain officers of the Corporation are members of these boards and committees of these boards and, consequently, in their role as directors, they participate in the risk oversight function at the operating companies. Parts C and D of this MD&A further describe risks related to Lifeco and IGM, respectively.

RISK OVERSIGHT APPROACH

The Corporation believes that a prudent approach to risk is achieved through a governance model that focuses on the active oversight of its investments. The Board of Directors and executive officers of the Corporation have overall oversight and responsibility for risk management associated with the investment activities and operations of the holding company and maintain a comprehensive and appropriate set of policies and controls.

The Board of Directors provides oversight and carries out its risk management mandate primarily through the following committees:

- The Audit Committee addresses risks related to financial reporting and cybersecurity.
- The Compensation Committee considers risks associated with the Corporation's compensation policies and practices.
- The Governance and Nominating Committee oversees the Corporation's approach to appropriately address potential risks related to governance matters.
- The Related Party and Conduct Review Committee reviews and considers for approval transactions with related parties of the Corporation.

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, which investors should carefully consider before investing in securities of the Corporation. The 2017 Annual MD&A reviews certain risks that could impact the financial condition and financial performance, and the value of the equity of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

During the nine-month period ended September 30, 2018, there were no significant changes to the Corporation's risk oversight approach, and the identification and management of the specific risks described in the 2017 Annual MD&A.

Financial Instruments and Other Instruments

FAIR VALUE MEASUREMENT

At September 30, 2018, there had been no material changes to the carrying amounts and fair value of the Corporation and its subsidiaries' assets and liabilities recorded at fair value from December 31, 2017. See Note 19 to the Corporation's Interim Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement.

DERIVATIVE FINANCIAL INSTRUMENTS

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market makers in such derivatives.

The use of derivatives is monitored and reviewed on a regular basis by senior management of the Corporation and by senior management of its subsidiaries. The Corporation and its subsidiaries have each established operating policies, guidelines and procedures relating to the use of derivative financial instruments, which in particular focus on:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring the hedging relationships.

There were no major changes to the Corporation and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the nine-month period ended September 30, 2018. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

	September 30, 2018			December 31, 2017		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Financial	20	1	-	17	2	2
Lifeco	20,167	396	(727)	16,589	384	(952)
IGM	3,691	32	(4)	3,269	36	8
	23,858	428	(731)	19,858	420	(944)
	23,878	429	(731)	19,875	422	(942)

During the nine-month period ended September 30, 2018, there was an increase of \$4.0 billion in the notional amount of derivatives outstanding, primarily due to an increase in forward-settling mortgage-backed security transactions (“to-be-announced securities”) and regular hedging activities. The Corporation and its subsidiaries’ exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) increased to \$429 million at September 30, 2018 from \$422 million at December 31, 2017.

Parts C and D of this MD&A provide information on the types of derivative financial instruments used by Lifeco and IGM, respectively.

See Note 25 to the Corporation’s 2017 Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

GUARANTEES

In the normal course of their operations, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation or subsidiary could be required to pay third parties, as some of these agreements do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined.

LETTERS OF CREDIT

In the normal course of its reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit on maturity. See also Part C of this MD&A and Note 31 to the Corporation’s 2017 Consolidated Financial Statements.

Contingent Liabilities

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation.

Commitments and Contractual Obligations

At September 30, 2018, there had been no material changes in the contractual obligations of the Corporation and its subsidiaries from those reported in the 2017 Annual MD&A.

Income Taxes (Non-Consolidated Basis)

The Corporation had, at September 30, 2018, non-capital losses of \$207 million available to reduce future taxable income (including capital gains). These losses expire during the years 2028 to 2038. In addition, the Corporation has capital losses of \$84 million that can be used indefinitely to reduce future capital gains.

See also “Transactions with Related Parties” below.

Transactions with Related Parties

Power Financial has a Related Party and Conduct Review Committee composed entirely of Directors who are independent of management and independent of the Corporation's controlling shareholder. The mandate of this Committee is to review proposed transactions with related parties of the Corporation, including its controlling shareholder, and to approve only those transactions that it deems appropriate and that are done at market terms and conditions.

In the normal course of business, Great-West Life and Putnam enter into various transactions with related companies which include providing group insurance benefits and subadvisory services to other companies within the Power Financial group of companies. Such transactions are at market terms and conditions. These transactions are reviewed by the appropriate related party and conduct review committee.

Lifeco provides asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Financial, and Lifeco and its subsidiaries. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

IGM enters into transactions with subsidiaries of Lifeco. These transactions are in the normal course of operations and include (i) providing certain administrative services, (ii) distributing insurance products and (iii) the sale of residential mortgages to Great-West Life and London Life. These transactions are at market terms and conditions and are reviewed by the appropriate related party and conduct review committee.

In October 2017, IGM obtained advance tax rulings which permitted tax loss consolidation transactions with a subsidiary of Power Corporation, whereby shares of a subsidiary that has generated tax losses may be acquired by IGM. The acquisitions are expected to close in the fourth quarter of each year. IGM will recognize the benefit of the tax losses realized throughout the year.

See Note 29 to the Corporation's 2017 Consolidated Financial Statements for additional information.

Summary of Critical Accounting Estimates and Judgments

In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries - Lifeco and IGM - are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation uncertainty and areas where significant judgments are made by the management of the Corporation and the managements of its subsidiaries include: the entities to be consolidated, insurance and investment contract liabilities, fair value measurements, investment impairment, goodwill and intangible assets, income taxes and employee future benefits. These are described in the Corporation's 2017 Annual MD&A and in the notes to the 2017 Consolidated Financial Statements. There were no changes in the Corporation's critical accounting estimates and judgments in the third quarter of 2018.

Changes in Accounting Policies

There were no changes to the Corporation's accounting policies from those reported at December 31, 2017, except as described below.

ADOPTION OF IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

On January 1, 2018, the Corporation and its subsidiaries adopted IFRS 15, *Revenue from Contracts with Customers* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers (refer to Note 3 of the Interim Consolidated Financial Statements). The standard outlines criteria that determine whether the Corporation's subsidiaries in the asset management industry are to capitalize and amortize contract costs or expense them.

The Corporation's subsidiaries receive commissions on investment product sales where they either receive a fee directly from the client or directly from the investment fund. The application of IFRS 15 has resulted in a change to the accounting policy related to commission expense as follows:

- Commissions that are paid on investment product sales where a fee is directly received from the client are capitalized and amortized over their estimated useful lives, not exceeding a period of seven years.
- All other commissions paid on investment product sales are expensed as incurred.

The Corporation and its subsidiaries have elected to apply the modified retrospective approach, as permitted by the transition provisions within IFRS 15. As a result of changes to the treatment of contract costs, Lifeco and IGM have recorded an adjustment for the derecognition of certain deferred acquisition costs included in other assets, deferred selling commissions included in intangible assets and related income tax liabilities which resulted in a decrease of \$360 million in the opening retained earnings of the Corporation at January 1, 2018.

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

	December 31, 2017 (as previously reported)	Impact of change in accounting policy	January 1, 2018 (restated)
Assets			
Other assets	8,332	(59)	8,273
Intangible assets - Deferred selling commissions	767	(703)	64
		(762)	
Liabilities and shareholders' equity			
Deferred tax liabilities	1,670	(205)	1,465
Retained earnings	15,381	(360)	15,021
Non-controlling interests	13,011	(197)	12,814
		(762)	

Commission expenses are expected to decline in future years due to the change in treatment of the contract costs in accordance with IFRS 15 and changes in IGM's commission structure in which there is an ongoing shift from sales-based commissions to asset-based commissions.

In addition, the Corporation and its subsidiaries have 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 net earnings.

The implementation of IFRS 15 will result in a change in timing of the recognition of commission expenses. However, there is no effect on the cash flows of the Corporation's subsidiaries.

For a further description of the impact of the accounting policy change, refer to Note 3 of the Interim Consolidated Financial Statements for the period ended September 30, 2018.

Future Accounting Changes

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective. There were no significant changes to the future accounting policies that could impact the Corporation and its subsidiaries, in addition to the disclosure in the 2017 MD&A and the 2017 Consolidated Financial Statements, other than as described below:

CURRENT IMPLICATION OF IFRS 9 - FINANCIAL INSTRUMENTS (IFRS 9)

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

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

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

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

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

On consolidation, the Corporation has adjusted the results of both IGM and Pargesa to be in accordance with IAS 39. Refer to the specific discussion included in the IGM and Pargesa sections “Contribution to net earnings and adjusted net earnings”.

IFRS 16 - LEASES (IFRS 16)

The IASB issued IFRS 16, *Leases*, which requires a lessee to recognize a right-of-use asset representing its right to use an underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. IFRS 16 may be implemented using a retrospective approach or a modified retrospective approach, which permits the use of certain practical expedients upon transition. The Corporation is considering which method it will apply on transition.

The adoption of IFRS 16 will result in an increase to the Corporation’s assets and liabilities through the recognition of a right-of-use asset and lease liability. Depreciation expense will increase due to the depreciation of the right-of-use asset and financing charges will increase due to the imputed interest on the lease liability.

The standard will be effective January 1, 2019. The Corporation and its subsidiaries continue to assess the quantitative impact of this standard.

Internal Control over Financial Reporting

The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with IFRS. The Corporation's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, 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 in the Corporation's internal control over financial reporting during the three-month period ended September 30, 2018 which have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Summary of Quarterly Results

	2018			2017				2016			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues ^[1, 2]	12,787	11,360	10,440	13,646	10,931	11,809	13,601	8,576	14,106	13,470	12,970
Net earnings (attributable to common shareholders)	523	658	586	225	463	545	484	616	539	505	259
per share - basic	0.74	0.92	0.82	0.32	0.65	0.76	0.68	0.86	0.76	0.71	0.36
per share - diluted	0.73	0.92	0.82	0.31	0.65	0.76	0.68	0.86	0.76	0.71	0.36
Adjusted net earnings (attributable to common shareholders) ^[3]	578	658	586	547	465	622	501	547	551	560	478
per share - basic ^[3]	0.81	0.92	0.82	0.77	0.65	0.87	0.70	0.77	0.77	0.78	0.67
Other items ^[3, 4]	(55)	-	-	(322)	(2)	(77)	(17)	69	(12)	(55)	(219)
per share - basic ^[3]	(0.07)	-	-	(0.45)	-	(0.11)	(0.02)	0.09	(0.01)	(0.07)	(0.31)

[1] Revenue in the fourth quarter of 2016 is lower due to a decrease in the value of Lifeco's bond portfolio resulting from increasing interest rates.

[2] Comparative figures restated as a result of IFRS 15; see the "Adoption of IFRS 15" section for more details.

[3] Adjusted net earnings and adjusted net earnings per share attributable to common shareholders, and other items and other items per share are non-IFRS financial measures. For a definition of these non-IFRS financial measures, please refer to the "Non-IFRS Financial Measures and Presentation" section in this MD&A.

[4] The Corporation's share of Lifeco, IGM and Pargesa's Other items is as follows:

	2018			2017				2016			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Lifeco											
Restructuring charges	(38)	-	-	(3)	-	(84)	(20)	(16)	(10)	(3)	(2)
Impact of U.S. tax reform	-	-	-	(146)	-	-	-	-	-	-	-
Net charge on sale of an equity investment	-	-	-	(83)	-	-	-	-	-	-	-
Share of IGM's other items	(1)	-	-	(4)	-	-	-	-	-	-	-
IGM											
Restructuring and other charges	(10)	-	-	(78)	-	(10)	-	-	-	-	-
Premium paid on early redemption of debentures	(5)	-	-	-	-	-	-	-	-	-	-
Pension plan	-	-	-	-	-	22	-	-	-	-	-
Reduction of income tax estimates	-	-	-	-	-	-	-	21	-	-	-
Share of Lifeco's other items	(1)	-	-	(8)	-	(4)	-	-	-	-	-
Pargesa											
Total - Gains on partial disposal	-	-	-	-	-	-	-	74	-	-	101
LafargeHolcim - Impairment charges	-	-	-	-	-	-	-	-	-	(52)	(308)
Engie - Impairment charge and loss on partial disposal	-	-	-	-	-	-	-	(6)	-	-	(9)
Other (charge) income	-	-	-	-	(2)	(1)	3	(4)	(2)	-	(1)
	(55)	-	-	(322)	(2)	(77)	(17)	69	(12)	(55)	(219)

POWER FINANCIAL CORPORATION

Condensed Consolidated Balance Sheets

(unaudited) [in millions of Canadian dollars]	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	5,265	5,321
Investments [Note 5]		
Bonds	122,324	120,411
Mortgage and other loans	31,908	30,035
Shares	9,263	8,768
Investment properties	5,064	4,851
Loans to policyholders	8,530	8,280
	177,089	172,345
Funds held by ceding insurers	9,145	9,893
Reinsurance assets [Note 8]	5,895	5,045
Investments in jointly controlled corporations and associates [Note 6]	4,245	4,016
Owner-occupied properties and capital assets	1,246	1,174
Derivative financial instruments	429	422
Other assets	8,920	8,332
Deferred tax assets	985	991
Intangible assets	5,199	5,748
Goodwill	9,899	9,580
Investments on account of segregated fund policyholders [Note 7]	220,207	217,357
Total assets	448,524	440,224
Liabilities		
Insurance contract liabilities [Note 8]	163,376	159,524
Investment contract liabilities [Note 8]	1,722	1,841
Obligations to securitization entities	7,358	7,596
Debentures and other debt instruments [Note 9]	7,953	7,968
Derivative financial instruments	1,160	1,364
Other liabilities	10,753	9,380
Deferred tax liabilities	1,542	1,670
Insurance and investment contracts on account of segregated fund policyholders [Note 7]	220,207	217,357
Total liabilities	414,071	406,700
Equity		
Stated capital [Note 10]		
Perpetual preferred shares	2,830	2,830
Common shares	833	826
Retained earnings	15,808	15,381
Reserves	1,820	1,476
Total shareholders' equity	21,291	20,513
Non-controlling interests	13,162	13,011
Total equity	34,453	33,524
Total liabilities and equity	448,524	440,224

Condensed Consolidated Statements of Earnings

(unaudited) [in millions of Canadian dollars, except per share amounts]	Three months ended September 30,		Nine months ended September 30,	
	2018	2017 [Note 3]	2018	2017 [Note 3]
Revenues				
Premium income				
Gross premiums written	11,403	9,335	29,697	28,589
Ceded premiums	(1,071)	(1,042)	(3,297)	(3,181)
Premium income, net	10,332	8,293	26,400	25,408
Net investment income				
Regular net investment income	1,595	1,516	4,777	4,586
Change in fair value through profit or loss	(1,375)	(988)	(3,209)	47
Net investment income	220	528	1,568	4,633
Fee income	2,235	2,110	6,619	6,300
Total revenues	12,787	10,931	34,587	36,341
Expenses				
Policyholder benefits				
Insurance and investment contracts				
Gross	7,882	7,051	23,620	23,061
Ceded	(625)	(548)	(1,846)	(1,658)
Total net policyholder benefits	7,257	6,503	21,774	21,403
Policyholder dividends and experience refunds	396	346	1,296	1,366
Change in insurance and investment contract liabilities	1,393	718	312	2,887
Total paid or credited to policyholders	9,046	7,567	23,382	25,656
Commissions	865	839	2,580	2,792
Operating and administrative expenses [Note 15]	1,784	1,538	5,179	4,956
Financing charges	111	105	261	324
Total expenses	11,806	10,049	31,402	33,728
Earnings before investments in jointly controlled corporations and associates, and income taxes	981	882	3,185	2,613
Share of earnings of investments in jointly controlled corporations and associates [Note 6]	18	41	122	188
Earnings before income taxes	999	923	3,307	2,801
Income taxes [Note 16]	163	147	507	408
Net earnings	836	776	2,800	2,393
Attributable to				
Non-controlling interests	278	276	929	802
Perpetual preferred shareholders	35	37	104	99
Common shareholders	523	463	1,767	1,492
	836	776	2,800	2,393
Earnings per common share [Note 18]				
Net earnings attributable to common shareholders				
- Basic	0.74	0.65	2.48	2.09
- Diluted	0.73	0.65	2.47	2.09

Condensed Consolidated Statements of Comprehensive Income

(unaudited) [in millions of Canadian dollars]	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net earnings	836	776	2,800	2,393
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net earnings				
Net unrealized gains (losses) on available-for-sale investments				
Unrealized gains (losses)	(62)	(49)	(156)	(56)
Income tax (expense) benefit	11	11	30	10
Realized (gains) losses transferred to net earnings	2	3	7	(17)
Income tax expense (benefit)	-	(1)	(1)	3
	(49)	(36)	(120)	(60)
Net unrealized gains (losses) on cash flow hedges				
Unrealized gains (losses)	(2)	7	18	11
Income tax (expense) benefit	-	(2)	(3)	(2)
Realized (gains) losses transferred to net earnings	-	(9)	(69)	402
Income tax expense (benefit)	1	3	18	(159)
	(1)	(1)	(36)	252
Net unrealized foreign exchange gains (losses) on translation of foreign operations				
Unrealized gains (losses) on translation	(333)	(358)	90	(749)
Unrealized gains (losses) on euro debt designated as hedges of net investment in foreign operations	30	10	10	(50)
Income tax (expense) benefit	(4)	(1)	(1)	7
	(307)	(349)	99	(792)
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	(25)	74	188	380
Income tax (expense) benefit	4	-	2	-
	(21)	74	190	380
Total - items that may be reclassified	(378)	(312)	133	(220)
Items that will not be reclassified subsequently to net earnings				
Actuarial gains (losses) on defined benefit plans [Note 14]	100	171	311	10
Income tax (expense) benefit	(23)	(39)	(70)	(7)
Share of other comprehensive income (losses) of investments in jointly controlled corporations and associates	-	-	6	(1)
Total - items that will not be reclassified	77	132	247	2
Other comprehensive income (loss)	(301)	(180)	380	(218)
Comprehensive income	535	596	3,180	2,175
Attributable to				
Non-controlling interests	173	177	964	584
Perpetual preferred shareholders	35	37	104	99
Common shareholders	327	382	2,112	1,492
	535	596	3,180	2,175

Condensed Consolidated Statements of Changes in Equity

Nine months ended September 30, 2018 (unaudited) [in millions of Canadian dollars]	Stated capital			Reserves				Total equity
	Perpetual preferred shares	Common shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 17]	Total	Non-controlling interests	
Balance, beginning of year								
As previously reported	2,830	826	15,381	159	1,317	1,476	13,011	33,524
Change in accounting policy [Note 3]	-	-	(360)	-	-	-	(197)	(557)
Restated balance, beginning of year	2,830	826	15,021	159	1,317	1,476	12,814	32,967
Net earnings	-	-	1,871	-	-	-	929	2,800
Other comprehensive income	-	-	-	-	345	345	35	380
Comprehensive income	-	-	1,871	-	345	345	964	3,180
Dividends to shareholders								
Perpetual preferred shares	-	-	(104)	-	-	-	-	(104)
Common shares	-	-	(927)	-	-	-	-	(927)
Dividends to non-controlling interests	-	-	-	-	-	-	(575)	(575)
Share-based compensation [Note 11]	-	-	-	29	-	29	12	41
Stock options exercised	-	7	-	(30)	-	(30)	30	7
Effects of changes in capital and ownership of subsidiaries, and other	-	-	(53)	-	-	-	(83)	(136)
Balance, end of period	2,830	833	15,808	158	1,662	1,820	13,162	34,453

Nine months ended September 30, 2017 (unaudited) [in millions of Canadian dollars]	Stated capital			Reserves				Total equity
	Perpetual preferred shares	Common shares	Retained earnings	Share-based compensation	Other comprehensive income [Note 17]	Total	Non-controlling interests	
Balance, beginning of year	2,580	805	14,849	157	1,090	1,247	12,735	32,216
Net earnings	-	-	1,591	-	-	-	802	2,393
Other comprehensive loss	-	-	-	-	-	-	(218)	(218)
Comprehensive income	-	-	1,591	-	-	-	584	2,175
Issue of preferred shares	250	-	-	-	-	-	-	250
Dividends to shareholders								
Perpetual preferred shares	-	-	(99)	-	-	-	-	(99)
Common shares	-	-	(883)	-	-	-	-	(883)
Dividends to non-controlling interests	-	-	-	-	-	-	(551)	(551)
Share-based compensation [Note 11]	-	-	-	35	-	35	13	48
Stock options exercised	-	8	-	(43)	-	(43)	42	7
Effects of changes in capital and ownership of subsidiaries, and other	-	-	20	-	9	9	208	237
Balance, end of period	2,830	813	15,478	149	1,099	1,248	13,031	33,400

Condensed Consolidated Statements of Cash Flows

(unaudited) [in millions of Canadian dollars]	Nine months ended September 30,	
	2018	2017 ^[1]
Operating activities		
Earnings before income taxes	3,307	2,801
Income tax paid, net of refunds	(426)	(418)
Adjusting items		
Change in insurance and investment contract liabilities	(512)	2,398
Change in funds held by ceding insurers	481	545
Change in reinsurance assets	58	331
Change in fair value through profit or loss	3,209	(47)
Other	(716)	(777)
	5,401	4,833
Financing activities		
Dividends paid		
By subsidiaries to non-controlling interests	(574)	(553)
Perpetual preferred shares	(103)	(93)
Common shares	(913)	(868)
	(1,590)	(1,514)
Issue of common shares by the Corporation [Note 10]	7	7
Issue of common shares by subsidiaries	44	123
Repurchase of common shares by subsidiaries	(48)	(27)
Issue of perpetual preferred shares by the Corporation	-	250
Issue of preferred shares by subsidiaries	-	200
Issue of debentures and senior notes [Note 9]	1,712	600
Redemption of debentures [Note 9]	(1,621)	(1,284)
Change in other debt instruments	(158)	776
Increase in obligations to securitization entities	1,238	1,433
Repayments of obligations to securitization entities and other	(1,531)	(1,874)
	(1,947)	(1,310)
Investment activities		
Bond sales and maturities	19,264	19,559
Mortgage and other loan repayments	3,598	4,395
Sale of shares	2,534	2,703
Change in loans to policyholders	(118)	(124)
Business acquisitions, net of cash and cash equivalents acquired [Note 4]	(279)	(249)
Investment in bonds	(20,894)	(21,634)
Investment in mortgage and other loans	(4,603)	(4,649)
Investment in shares	(2,932)	(2,564)
Investments in jointly controlled corporations and associates [Note 6]	(11)	(502)
Proceeds from assets held for sale [Note 4]	169	-
Investment in investment properties and other	(253)	(293)
	(3,525)	(3,358)
Effect of changes in exchange rates on cash and cash equivalents	15	(69)
Increase (decrease) in cash and cash equivalents	(56)	96
Cash and cash equivalents, beginning of year	5,321	4,396
Cash and cash equivalents, end of period	5,265	4,492
Net cash from operating activities includes		
Interest and dividends received	4,381	4,181
Interest paid	426	382

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

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

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

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The following abbreviations are used in these Consolidated Financial Statements:

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

NOTE 1 Corporate Information

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

Power Financial is a diversified international management and holding company that holds interests, directly or indirectly, in companies in the financial services sector in Canada, the United States and Europe. Through its investment in Pargesa Holding SA, Power Financial also has significant holdings in global industrial and services companies based in Europe.

The unaudited Interim Condensed Consolidated Financial Statements (financial statements) of Power Financial as at and for the three and nine months ended September 30, 2018 were approved by its Board of Directors on November 8, 2018. The Corporation is controlled by Power Corporation of Canada.

NOTE 2 Basis of Presentation

BASIS OF PRESENTATION

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

The operating subsidiaries of the Corporation are:

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

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

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

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

NOTE 2 Basis of Presentation (continued)**COMPARATIVE FIGURES**

The Corporation reclassified certain comparative figures in the statement of cash flows for the nine-month period ended September 30, 2017 to conform to the presentation in the current year. Previously, mortgage loan originations at IGM that were to be subsequently sold or securitized were presented on a net basis within the investment activities of the statements of cash flows. The Corporation now presents them on a gross basis. The change in presentation resulted in an increase in Mortgage and other loan repayments of \$2.3 billion and an offsetting increase in Investment in mortgage and other loans of \$2.3 billion. This correction in presentation is not material and has no effect on the total investing activities or the total cash flows in the statements of cash flows nor does it have an effect on net earnings. In addition, the Corporation has presented the cash flows related to securitization activities on a gross basis in the financing activities. These were previously presented on a net basis.

NOTE 3 Summary of Significant Accounting Policies

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

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

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

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

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

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

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

NOTE 3 Summary of Significant Accounting Policies (continued)

The Corporation and its subsidiaries have elected to apply the modified retrospective approach, as permitted by the transition provisions within IFRS 15. As a result of changes to the treatment of contract costs, Lifeco and IGM have recorded an adjustment for the derecognition of certain deferred acquisition costs included in other assets, deferred selling commissions included in intangible assets and related income tax liabilities which resulted in a decrease of \$360 million in the opening retained earnings of the Corporation as at January 1, 2018.

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

	December 31, 2017 (as previously reported)	Impact of change in accounting policy	January 1, 2018 (restated)
Assets			
Other assets	8,332	(59)	8,273
Intangible assets – Deferred selling commissions	767	(703)	64
		(762)	
Liabilities and shareholders' equity			
Deferred tax liabilities	1,670	(205)	1,465
Retained earnings	15,381	(360)	15,021
Non-controlling interests	13,011	(197)	12,814
		(762)	

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

	September 30, 2018	December 31, 2017
Cost, beginning of year		
As previously reported	1,429	1,374
Change in accounting policy	(1,359)	-
Restated cost, beginning of year	70	1,374
Additions	42	272
Disposal/redemption	-	(53)
Other, including write-off of assets fully amortized	-	(164)
Cost, end of period	112	1,429
Accumulated amortization, beginning of year		
As previously reported	(662)	(648)
Change in accounting policy	656	-
Restated accumulated amortization, beginning of year	(6)	(648)
Amortization	(10)	(207)
Disposal/redemption	-	29
Other, including write-off of assets fully amortized	-	164
Accumulated amortization, end of period	(16)	(662)
Carrying value, end of period	96	767

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

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

For the three months ended September 30, 2017	Amount previously reported	Reclassification	Revised amount presented
Gross premiums written	9,346	(11)	9,335
Fee income	2,075	35	2,110
Commissions	781	58	839
Operating and administrative expenses	1,572	(34)	1,538

For the nine months ended September 30, 2017	Amount previously reported	Reclassification	Revised amount presented
Gross premiums written	28,622	(33)	28,589
Fee income	6,182	118	6,300
Commissions	2,614	178	2,792
Operating and administrative expenses	5,049	(93)	4,956

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

Intangible assets - Deferred selling commissions

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

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

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

USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

FUTURE ACCOUNTING CHANGES

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

NOTE 3 Summary of Significant Accounting Policies (continued)

Current implication of IFRS 9 – Financial Instruments (IFRS 9)

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

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

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

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

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

IFRS 16 – Leases (IFRS 16)

The IASB issued IFRS 16, *Leases*, which requires a lessee to recognize a right-of-use asset representing its right to use an underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. IFRS 16 may be implemented using a retrospective approach or a modified retrospective approach, which permits the use of certain practical expedients upon transition. The Corporation is considering which method it will apply on transition.

The adoption of IFRS 16 will result in an increase to the Corporation’s assets and liabilities through the recognition of a right-of-use asset and lease liability. Depreciation expense will increase due to the depreciation of the right-of-use asset and financing charges will increase due to the imputed interest on the lease liability.

The standard will be effective January 1, 2019. The Corporation and its subsidiaries continue to assess the quantitative impact of this standard.

NOTE 4 Business Acquisitions and Disposals

LIFECO

Retirement Advantage

On January 2, 2018, Lifeco, through its indirect wholly owned subsidiary The Canada Life Group (UK) Ltd., completed the acquisition of 100% of the outstanding shares of MGM Advantage Holdings Ltd. which operated as Retirement Advantage. Retirement Advantage is a financial services provider based in the United Kingdom that offers retirement and equity-release services that was rebranded Canada Life on October 1, 2018. The operations of Retirement Advantage are being integrated with Canada Life as part of the United Kingdom Business Transformation (Note 15).

During the third quarter of 2018, Lifeco 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 financial statements of \$240 million 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, financial statements for the recognition and measurement of intangible assets and certain other items.

The following table summarizes the aggregate amounts assigned to the assets acquired and liabilities assumed:

Assets acquired	
Investments	
Bonds	1,748
Mortgage loans - equity-release mortgages ^[1]	799
Reinsurance assets	931
Cash and cash equivalents and other assets	261
Intangible assets	56
Goodwill	205
Investments on account of segregated fund policyholders	950
	<u>4,950</u>
Less: liabilities assumed	
Insurance contract liabilities	2,572
Other liabilities	1,029
Insurance and investment contracts on account of segregated fund policyholders	950
	<u>4,551</u>
Net assets acquired	<u>399</u>

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

The following provides the change in carrying value from June 30, 2018 to September 30, 2018 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	<u>205</u>

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.

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 Lifeco's best estimate of the purchase price allocation, which includes provisional amounts. The comprehensive evaluation of the assets acquired and liabilities assumed, and completion of the purchase price allocation will be finalized during the fourth quarter of 2018.

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

NOTE 4 Business Acquisitions and Disposals (continued)

EverWest Real Estate Partners

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

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

During the first quarter of 2018, Lifeco, through Putnam, acquired the non-controlling interest in PanAgora Asset Management, Inc. previously held by Nippon Life Insurance Company. This transaction decreased the Corporation's retained earnings and non-controlling interests by \$38 million and \$37 million, respectively, with no impact on net earnings.

Disposal of assets held for sale

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

Sale of policies to Scottish Friendly Assurance Society Limited

On June 21, 2018, Canada Life Limited, an indirect wholly owned subsidiary of Lifeco, announced an agreement to sell a heritage block of individual policies to Scottish Friendly Assurance Society Limited (Scottish Friendly) of approximately \$4.7 billion, composed of unit-linked policies of approximately \$3.8 billion and non-unit-linked policies of \$0.9 billion. These balances have not been classified as held for sale, pending the determination of the actual amount and allocation of assets and similar amount of liabilities to be transferred. This determination will be completed following the allocation of assets which will be agreed upon in due course, in accordance with the business transfer agreement. Upon completion of the data audit and other conditions being met, Lifeco's 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 Lifeco's United Kingdom Business Transformation (Note 15).

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

Invesco Ltd (Ireland)

On August 1, 2018, Lifeco, through its indirect wholly owned subsidiary Irish Life, completed its agreement to acquire a controlling interest in Invesco Ltd (Ireland), an independent financial consultancy firm in Ireland specializing in employee benefit and private wealth management that manages and administers assets on behalf of clients. This transaction increased non-controlling interests by \$20 million 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 million on the date of acquisition to be adjusted pending the completion of a comprehensive valuation of the intangible assets acquired.

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

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

	September 30, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated as fair value through profit or loss	88,176	88,176	87,988	87,988
Classified as fair value through profit or loss	1,862	1,862	1,836	1,836
Available for sale	13,193	13,193	12,628	12,628
Loans and receivables	19,093	19,884	17,959	19,470
	122,324	123,115	120,411	121,922
Mortgage and other loans				
Loans and receivables	31,163	31,248	29,748	30,680
Designated as fair value through profit or loss ^[1]	740	740	-	-
Classified as fair value through profit or loss ^[2]	5	5	287	287
	31,908	31,993	30,035	30,967
Shares				
Designated as fair value through profit or loss	8,730	8,730	8,097	8,097
Classified as fair value through profit or loss	124	124	97	97
Available for sale	409	409	574	574
	9,263	9,263	8,768	8,768
Investment properties	5,064	5,064	4,851	4,851
Loans to policyholders	8,530	8,530	8,280	8,280
	177,089	177,965	172,345	174,788

[1] Equity-release mortgages acquired with the acquisition of Retirement Advantage [Note 4] are designated at fair value through profit or loss. There are no market observable prices for equity-release mortgages; therefore an internal discounted cash flow model is used to value these assets. These mortgage loans are included in Level 3 of the fair value hierarchy [Note 19].

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

NOTE 6 Investments in Jointly Controlled Corporations and Associates

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

	September 30, 2018				September 30, 2017			
	Parjointco	China AMC	Other	Total	Parjointco	China AMC	Other	Total
Carrying value, beginning of year	3,354	648	14	4,016	2,811	-	292	3,103
Investments	-	-	11	11	-	638	63	701
Disposal ⁽¹⁾	-	-	-	-	-	-	(208)	(208)
Share of earnings	92	21	9	122	128	3	57	188
Share of other comprehensive income (losses)	211	(16)	(1)	194	389	(7)	(3)	379
Dividends	(75)	(12)	-	(87)	(78)	-	(6)	(84)
Effects of changes in ownership and other ⁽²⁾	(8)	-	(3)	(11)	(1)	-	(131)	(132)
Carrying value, end of period	3,574	641	30	4,245	3,249	634	64	3,947

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

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

CHINA AMC

On August 31, 2017, Mackenzie Investments, a subsidiary of IGM, completed the acquisition of a 13.9% interest in China AMC for a total cost of \$638 million.

NOTE 7 Segregated Funds

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

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

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

INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	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	-
Segregated fund investment in General Fund	21	(38)
General Fund investment in segregated fund	(16)	(10)
Net transfer from General Fund	19	133
Non-controlling mutual fund interest	(757)	(669)
	2,850	7,643
Balance, end of period	220,207	208,046

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

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

	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 million.

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

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

During the nine months ended September 30, 2018, certain foreign equity holdings valued at \$3,218 million were transferred from Level 2 to Level 1 (\$629 million were transferred from Level 1 to Level 2 at December 31, 2017), primarily based on Lifeco's change in use of inputs in addition to quoted prices in active markets for certain foreign stock holdings. Level 2 includes assets where fair value is not available from normal market pricing sources and where Lifeco does not have visibility through to the underlying assets. Inputs are utilized in addition to quoted prices in active markets.

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

	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.

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

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

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

NOTE 9 Debentures and Other Debt Instruments

LIFECO

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

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

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

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

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

IGM

On March 7, 2018, IGM's 6.58% \$150 million debenture notes matured at their principal amount together with accrued interest.

On July 11, 2018, IGM issued \$200 million of 4.174% debentures maturing July 13, 2048. Interest on debentures is payable semi-annually in arrears on January 13 and July 13, commencing January 13, 2019, until the date on which the debentures are repaid. The debentures are redeemable at any time prior to January 13, 2048 in whole or in part at the greater of the Canada Yield Price and par, and on or after January 13, 2048 in whole or in part at par, together in each case with accrued and unpaid interest. On August 10, 2018, the net proceeds were used by IGM, together with a portion of its existing internal cash resources, to fund the early redemption of all of its \$375 million 7.35% debentures due April 8, 2019. A premium of \$11 million was paid on the early redemption and was recognized within financing charges in the statements of earnings.

NOTE 10 Stated Capital**AUTHORIZED**

The authorized capital of Power Financial consists of an unlimited number of First Preferred Shares, issuable in series; an unlimited number of Second Preferred Shares, issuable in series; and an unlimited number of common shares.

ISSUED AND OUTSTANDING

	September 30, 2018		December 31, 2017	
	Number of shares	Stated capital	Number of shares	Stated capital
		\$		\$
First Preferred Shares (perpetual)				
Series A	4,000,000	100	4,000,000	100
Series D	6,000,000	150	6,000,000	150
Series E	8,000,000	200	8,000,000	200
Series F	6,000,000	150	6,000,000	150
Series H	6,000,000	150	6,000,000	150
Series I	8,000,000	200	8,000,000	200
Series K	10,000,000	250	10,000,000	250
Series L	8,000,000	200	8,000,000	200
Series O	6,000,000	150	6,000,000	150
Series P	8,965,485	224	8,965,485	224
Series Q	2,234,515	56	2,234,515	56
Series R	10,000,000	250	10,000,000	250
Series S	12,000,000	300	12,000,000	300
Series T	8,000,000	200	8,000,000	200
Series V	10,000,000	250	10,000,000	250
		2,830		2,830
Common Shares				
Balance, beginning of year	713,871,479	826	713,269,660	805
Issued under Stock Option Plan	225,000	7	601,819	21
Balance, end of period	714,096,479	833	713,871,479	826

Common Shares

During the nine months ended September 30, 2018, 225,000 common shares were issued under the Corporation's Employee Stock Option Plan for a consideration of \$7 million (219,039 common shares were issued for the nine months ended September 30, 2017 for a consideration of \$7 million).

During the nine months ended September 30, 2018, dividends declared on the Corporation's common shares amounted to \$1.2990 per share (\$1.2375 per share in the nine months ended September 30, 2017).

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

Under Power Financial's Employee Stock Option Plan, 27,498,801 common shares are reserved for issuance.

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

	September 30, 2018		September 30, 2017	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		\$		\$
Outstanding at beginning of year	11,291,779	32.59	10,409,648	32.04
Granted	1,809,883	31.78	1,486,550	35.33
Exercised	(225,000)	29.63	(219,039)	29.87
Forfeited and expired	(1,584,037)	33.76	(2,600)	34.38
Outstanding at end of period	11,292,625	32.36	11,674,559	32.50
Options exercisable at end of period	5,708,266	31.22	6,369,990	30.77

The exercise price of the 11,292,625 outstanding options ranges from \$25.07 to \$38.35.

Compensation expense

During the nine months ended September 30, 2018, Power Financial granted 1,809,883 options (1,486,550 options in 2017) under its Employee Stock Option Plan.

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

	September 30, 2018	September 30, 2017
Dividend yield	4.4%	4.1%
Expected volatility	17.5%	19.7%
Risk-free interest rate	2.1%	1.4%
Expected life (years)	9.2	9.0
Fair value per stock option (\$/option)	2.86	3.67
Weighted-average exercise price (\$/option)	31.78	35.33

Lifeco and IGM have also established stock option plans pursuant to which options may be granted to certain officers and employees. In addition, other subsidiaries of the Corporation have established share-based compensation plans. Compensation expense is recorded based on the fair value of the options or the fair value of the equity instruments at the grant date, amortized over the vesting period. For the three months ended September 30, 2018, total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to \$11 million (\$12 million in 2017), and \$41 million for the nine months ended September 30, 2018 (\$48 million in 2017), and is recorded in operating and administrative expenses in the statements of earnings.

NOTE 12 Capital Management

POWER FINANCIAL

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

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

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

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

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

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

LIFECO

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

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

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

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

NOTE 12 Capital Management (continued)

- In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a regulatory capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries. Effective January 1, 2018, OSFI replaced the prior Minimum Continuing Capital and Surplus Requirements (MCCSR) with the Life Insurance Capital Adequacy Test (LICAT). The LICAT ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer, defined by OSFI, is the aggregate of all defined capital requirements multiplied by a scalar of 1.05. The total capital resources are provided by the sum of available capital, surplus allowance and eligible deposits. OSFI has established a supervisory target total ratio of 100%, and a supervisory minimum total ratio of 90%. Great-West Life's consolidated LICAT ratio at September 30, 2018 was 134%.
- Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions.

IGM FINANCIAL

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

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

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

NOTE 13 Risk Management

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

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

NOTE 13 Risk Management (continued)

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

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

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

POWER FINANCIAL

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

Liquidity risk

Power Financial is a holding company. As such, corporate cash flows are principally made up of dividends received from its subsidiaries and a jointly controlled corporation, and income from investments, less operating expenses, financing charges, income taxes and payment of dividends to its common and preferred shareholders. The ability of Lifeco, IGM and Parjointco, which are also holding companies, to meet their obligations and pay dividends is dependent upon receipt of dividends from their own subsidiaries.

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

Power Financial's management of liquidity risk has not changed materially since December 31, 2017.

Credit risk

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

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

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

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

NOTE 13 Risk Management (continued)**Market risk**

Power Financial's financial instruments are comprised of cash and cash equivalents, fixed income securities, derivatives and debentures.

a) Foreign exchange risk

In its ongoing operations, Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at September 30, 2018, approximately 3% of Power Financial's cash and cash equivalents and fixed income securities were denominated in U.S. dollars.

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

b) Interest rate risk

Power Financial's financial instruments do not have significant exposure to interest rate risk.

c) Equity risk

Power Financial's financial instruments do not have significant exposure to equity risk.

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

LIFECO

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

Liquidity risk

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

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

Credit risk

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

NOTE 13 Risk Management (continued)**Market risk***a) Foreign exchange risk*

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

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

b) Interest rate risk

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

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

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

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.

NOTE 13 Risk Management (continued)

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

	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)

c) Equity risk

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

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

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

	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)

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)

NOTE 13 Risk Management (continued)**IGM FINANCIAL**

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

Liquidity risk

IGM's liquidity management practices include:

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

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

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

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

Credit risk

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

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

IGM manages credit risk related to residential mortgages through:

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

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

Market risk*a) Foreign exchange risk*

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

b) Interest rate risk

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

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

NOTE 13 Risk Management (continued)*c) Equity risk*

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

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

Risks related to assets under management

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

NOTE 14 Pension Plans and Other Post-Employment Benefits

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Pension plans				
Service costs ^[1]	64	62	191	134
Curtailment	-	(20)	(1)	(22)
Net interest cost	8	9	26	28
	72	51	216	140
Post-employment benefits				
Service costs	1	1	3	3
Net interest cost	4	4	12	12
	5	5	15	15
Expense recognized in net earnings	77	56	231	155
Remeasurements				
Pension plans				
Actuarial (gains) losses ^[2]	(131)	(190)	(343)	83
Return on assets (greater) less than discount rate	30	17	19	(99)
Change in the asset ceiling	9	19	32	3
Post-employment benefits				
Actuarial (gains) losses ^[2]	(8)	(17)	(19)	3
Income recognized in other comprehensive income (loss)	(100)	(171)	(311)	(10)
Total expense (income)	(23)	(115)	(80)	145

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

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

NOTE 15 Operating and Administrative Expenses

RESTRUCTURING CHARGES

Lifeco

In the third quarter of 2018, Lifeco recorded a restructuring provision of \$67 million pre tax (\$56 million after tax) in relation to its United Kingdom Business Transformation. This restructuring is in respect to 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 the integration of Retirement Advantage into Canada Life along with the sale of a heritage block of individual policies to Scottish Friendly.

IGM Financial

In the third quarter of 2018, IGM recorded a restructuring provision of \$23 million pre tax (\$17 million after tax) related to the re-engineering of its North American equity offerings and associated personnel changes, as well as other initiatives to improve IGM's offerings and operational effectiveness.

These restructuring charges are recorded within operating and administrative expenses in the statements of earnings. At September 30, 2018, the balance of restructuring provisions, including those above, of \$146 million is recorded in other liabilities.

NOTE 16 Income Taxes

INCOME TAX EXPENSE

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Current taxes	135	105	413	425
Deferred taxes	28	42	94	(17)
	163	147	507	408

EFFECTIVE INCOME TAX RATE

The overall effective income tax rate for the Corporation for the nine months ended September 30, 2018 was 15.3% compared to 17.2% for the full year 2017 and 14.6% for the nine months ended September 30, 2017.

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

NOTE 17 Other Comprehensive Income

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Nine months ended September 30, 2018						
Balance, beginning of year	98	661	1,134	(557)	(19)	1,317
Other comprehensive income (loss)	(86)	70	195	160	6	345
Balance, end of period	12	731	1,329	(397)	(13)	1,662

	Items that may be reclassified subsequently to net earnings			Items that will not be reclassified to net earnings		Total
	Investment revaluation and cash flow hedges	Foreign currency translation	Share of jointly controlled corporations and associates	Actuarial gains (losses) on defined benefit pension plans	Share of jointly controlled corporations and associates	
Nine months ended September 30, 2017						
Balance, beginning of year	(79)	1,048	648	(501)	(26)	1,090
Other comprehensive income (loss)	163	(550)	383	5	(1)	-
Other	-	-	-	-	9	9
Balance, end of period	84	498	1,031	(496)	(18)	1,099

NOTE 18 Earnings per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Earnings				
Net earnings attributable to shareholders	558	500	1,871	1,591
Dividends on perpetual preferred shares	(35)	(37)	(104)	(99)
Net earnings attributable to common shareholders	523	463	1,767	1,492
Dilutive effect of subsidiaries' outstanding stock options	-	-	(1)	(2)
Net earnings adjusted for dilutive effect	523	463	1,766	1,490
Number of common shares [millions]				
Weighted average number of common shares outstanding				
- Basic	714.0	713.3	713.9	713.3
Potential exercise of outstanding stock options	0.3	0.7	0.4	0.7
Weighted average number of common shares outstanding				
- Diluted	714.3	714.0	714.3	714.0
Net earnings per common share				
Basic	0.74	0.65	2.48	2.09
Diluted	0.73	0.65	2.47	2.09

For the nine months ended September 30, 2018, 8.1 million stock options (5.9 million in 2017) have been excluded from the computation of diluted earnings per share as they were anti-dilutive.

NOTE 19 Fair Value Measurement

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

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

NOTE 19 Fair Value Measurement (continued)

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

September 30, 2018	Level 1	Level 2	Level 3	Total fair value
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	-	89,974	64	90,038
Available for sale	-	13,193	-	13,193
Mortgage and other loans				
Fair value through profit or loss	-	5	740	745
Shares				
Fair value through profit or loss	8,491	-	363	8,854
Available for sale	6	6	170	182
Investment properties	-	-	5,064	5,064
Funds held by ceding insurers	105	6,981	-	7,086
Derivative instruments	2	407	20	429
Other assets	683	336	-	1,019
	9,287	110,902	6,421	126,610
Liabilities recorded at fair value				
Investment contract liabilities	-	1,704	18	1,722
Derivative instruments	3	1,153	4	1,160
Other liabilities	9	86	65	160
	12	2,943	87	3,042
December 31, 2017				
	Level 1	Level 2	Level 3	Total fair value
Assets recorded at fair value				
Bonds				
Fair value through profit or loss	-	89,759	65	89,824
Available for sale	-	12,628	-	12,628
Mortgage and other loans				
Fair value through profit or loss	-	287	-	287
Shares				
Fair value through profit or loss	7,949	1	244	8,194
Available for sale	69	5	169	243
Investment properties	-	-	4,851	4,851
Funds held by ceding insurers	132	7,806	-	7,938
Derivative instruments	1	409	12	422
Other assets	503	389	-	892
	8,654	111,284	5,341	125,279
Liabilities recorded at fair value				
Investment contract liabilities	-	1,819	22	1,841
Derivative instruments	2	1,354	8	1,364
Other liabilities	9	-	62	71
	11	3,173	92	3,276

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

NOTE 19 Fair Value Measurement (continued)

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

Nine months ended September 30, 2018	Bonds	Mortgages	Shares			Derivatives, net	Other assets (liabilities)	Investment contract liabilities	Total
	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	Available for sale	Investment properties				
Balance, beginning of year	65	-	244	169	4,851	4	(62)	(22)	5,249
Total gains (losses)									
In net earnings	-	(41)	7	-	30	-	-	-	(4)
In other comprehensive income ^[1]	(1)	(3)	1	7	(17)	-	-	-	(13)
Business acquisition [Note 4]	-	799	-	-	-	-	-	-	799
Purchases	-	-	145	1	220	1	-	-	367
Issues	-	26	-	-	-	-	-	-	26
Sales	-	-	(34)	(7)	(20)	-	-	-	(61)
Settlements	-	(41)	-	-	-	11	-	-	(30)
Other	-	-	-	-	-	-	(3)	4	1
Balance, end of period	64	740	363	170	5,064	16	(65)	(18)	6,334

Nine months ended September 30, 2017	Bonds	Mortgages	Shares			Derivatives, net	Other assets (liabilities)	Investment contract liabilities	Total
	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	Available for sale	Investment properties				
Balance, beginning of year	1	-	81	129	4,340	(23)	1	(20)	4,509
Total gains (losses)									
In net earnings	-	-	2	-	123	12	-	-	137
In other comprehensive income ^[1]	2	-	(2)	(1)	17	-	-	-	16
Purchases	-	-	128	39	302	(1)	-	-	468
Sales	-	-	(14)	-	(44)	-	(1)	-	(59)
Settlements	-	-	-	-	-	12	-	-	12
Other	-	-	-	-	-	-	-	(2)	(2)
Transfers into Level 3 ^[2]	59	-	4	-	-	-	-	-	63
Transfers out of Level 3 ^[3]	(1)	-	-	-	-	-	-	-	(1)
Balance, end of period	61	-	199	167	4,738	-	-	(22)	5,143

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

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

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

NOTE 19 Fair Value Measurement (continued)

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

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 2.5% - 10.3%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 4.0% - 7.5%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 2.3%	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 and other 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.

NOTE 20 Segmented Information

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

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

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

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

NOTE 20 Segmented Information (continued)**CONSOLIDATED NET EARNINGS**

Three months ended September 30, 2018	Lifeco	IGM ^[1]	Pargesa	Corporate	Total
Revenues					
Premium income, net	10,337	-	-	(5)	10,332
Net investment income	207	49	-	(36)	220
Fee income	1,483	776	-	(24)	2,235
Total revenues	12,027	825	-	(65)	12,787
Expenses					
Total paid or credited to policyholders	9,046	-	-	-	9,046
Commissions	611	270	-	(16)	865
Operating and administrative expenses	1,487	268	-	29	1,784
Financing charges	69	38	-	4	111
Total expenses	11,213	576	-	17	11,806
Earnings before investments in jointly controlled corporations and associates, and income taxes	814	249	-	(82)	981
Share of earnings (losses) of investments in jointly controlled corporations and associates	-	6	12	-	18
Earnings before income taxes	814	255	12	(82)	999
Income taxes	107	55	-	1	163
Net earnings	707	200	12	(83)	836
Attributable to					
Non-controlling interests	243	87	-	(52)	278
Perpetual preferred shareholders	-	-	-	35	35
Common shareholders	464	113	12	(66)	523
	707	200	12	(83)	836

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

Three months ended September 30, 2017 [Note 3]	Lifeco	IGM	Pargesa	Corporate	Total
Revenues					
Premium income, net	8,293	-	-	-	8,293
Net investment income	526	29	-	(27)	528
Fee income	1,400	741	-	(31)	2,110
Total revenues	10,219	770	-	(58)	10,931
Expenses					
Total paid or credited to policyholders	7,567	-	-	-	7,567
Commissions	579	275	-	(15)	839
Operating and administrative expenses	1,275	239	-	24	1,538
Financing charges	71	29	-	5	105
Total expenses	9,492	543	-	14	10,049
Earnings before investments in jointly controlled corporations and associates, and income taxes	727	227	-	(72)	882
Share of earnings (losses) of investments in jointly controlled corporations and associates	3	3	34	1	41
Earnings before income taxes	730	230	34	(71)	923
Income taxes	93	54	-	-	147
Net earnings	637	176	34	(71)	776
Attributable to					
Non-controlling interests	245	74	-	(43)	276
Perpetual preferred shareholders	-	-	-	37	37
Common shareholders	392	102	34	(65)	463
	637	176	34	(71)	776

NOTE 20 Segmented Information (continued)**CONSOLIDATED NET EARNINGS**

Nine months ended September 30, 2018	Lifeco	IGM ^[1]	Pargesa	Corporate	Total
Revenues					
Premium income, net	26,416	-	-	(16)	26,400
Net investment income	1,518	142	-	(92)	1,568
Fee income	4,399	2,293	-	(73)	6,619
Total revenues	32,333	2,435	-	(181)	34,587
Expenses					
Total paid or credited to policyholders	23,382	-	-	-	23,382
Commissions	1,801	826	-	(47)	2,580
Operating and administrative expenses	4,309	774	-	96	5,179
Financing charges	151	97	-	13	261
Total expenses	29,643	1,697	-	62	31,402
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,690	738	-	(243)	3,185
Share of earnings (losses) of investments in jointly controlled corporations and associates	-	22	92	8	122
Earnings before income taxes	2,690	760	92	(235)	3,307
Income taxes	337	166	-	4	507
Net earnings	2,353	594	92	(239)	2,800
Attributable to					
Non-controlling interests	832	253	-	(156)	929
Perpetual preferred shareholders	-	-	-	104	104
Common shareholders	1,521	341	92	(187)	1,767
	2,353	594	92	(239)	2,800

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

Nine months ended September 30, 2017 [Note 3]	Lifeco	IGM	Pargesa	Corporate	Total
Revenues					
Premium income, net	25,408	-	-	-	25,408
Net investment income	4,606	122	-	(95)	4,633
Fee income	4,169	2,236	-	(105)	6,300
Total revenues	34,183	2,358	-	(200)	36,341
Expenses					
Total paid or credited to policyholders	25,656	-	-	-	25,656
Commissions	2,001	850	-	(59)	2,792
Operating and administrative expenses	4,209	705	-	42	4,956
Financing charges	226	84	-	14	324
Total expenses	32,092	1,639	-	(3)	33,728
Earnings before investments in jointly controlled corporations and associates, and income taxes	2,091	719	-	(197)	2,613
Share of earnings (losses) of investments in jointly controlled corporations and associates	22	3	128	35	188
Earnings before income taxes	2,113	722	128	(162)	2,801
Income taxes	240	164	-	4	408
Net earnings	1,873	558	128	(166)	2,393
Attributable to					
Non-controlling interests	685	228	-	(111)	802
Perpetual preferred shareholders	-	-	-	99	99
Common shareholders	1,188	330	128	(154)	1,492
	1,873	558	128	(166)	2,393

NOTE 20 Segmented Information (continued)**TOTAL ASSETS**

September 30, 2018	Lifeco	IGM ^[2]	Pargesa	Corporate	Total
Invested assets (including cash and cash equivalents)	172,679	8,572	-	1,103	182,354
Investments in jointly controlled corporations and associates	6	641	3,574	24	4,245
Other assets	25,392	1,092	-	136	26,620
Goodwill and intangible assets	10,810	4,126	-	162	15,098
Investments on account of segregated fund policyholders	220,207	-	-	-	220,207
Total assets ^[1]	429,094	14,431	3,574	1,425	448,524
December 31, 2017	Lifeco	IGM	Pargesa	Corporate	Total
Invested assets (including cash and cash equivalents)	167,480	9,073	-	1,113	177,666
Investments in jointly controlled corporations and associates	2	648	3,354	12	4,016
Other assets	24,635	1,139	-	83	25,857
Goodwill and intangible assets	10,371	4,789	-	168	15,328
Investments on account of segregated fund policyholders	217,357	-	-	-	217,357
Total assets ^[1]	419,845	15,649	3,354	1,376	440,224

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

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

Great-West Lifeco Inc.

PART C

Management's Discussion and Analysis

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Financial Statements and Notes

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Please note that the bottom of each page in Part C contains two different page numbers. A page number with the prefix "C" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by Great-West Lifeco Inc.

The attached documents concerning Great-West Lifeco Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Cautionary Note Regarding Forward-Looking Information. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

**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:

2017 Adjustments:	Segment			Total	EPS Impact
	Canada	United States	Europe		
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)
	<u>315</u>	<u>334</u>	<u>296</u>	<u>965</u>	<u>736</u>
United States					
Financial Services	121	101	104	313	277
Asset Management	(8)	(8)	6	(32)	(16)
U.S. Corporate ⁽¹⁾⁽²⁾	—	52	—	52	(13)
	<u>113</u>	<u>145</u>	<u>110</u>	<u>333</u>	<u>248</u>
Europe					
Insurance & Annuities	240	281	233	765	697
Reinsurance ⁽³⁾	87	97	(41)	288	123
Europe Corporate ⁽¹⁾	(64)	(23)	(8)	(91)	(26)
	<u>263</u>	<u>355</u>	<u>184</u>	<u>962</u>	<u>794</u>
Lifeco Corporate	<u>(2)</u>	<u>(3)</u>	<u>(9)</u>	<u>(9)</u>	<u>(21)</u>
Net earnings - common shareholders	<u>\$ 689</u>	<u>\$ 831</u>	<u>\$ 581</u>	<u>\$ 2,251</u>	<u>\$ 1,757</u>
Adjustments ⁽¹⁾					
Restructuring costs	56	—	1	56	156
Adjusted net earnings - common shareholders	<u>\$ 745</u>	<u>\$ 831</u>	<u>\$ 582</u>	<u>\$ 2,307</u>	<u>\$ 1,913</u>

⁽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.

	For the three months ended			For the nine months ended	
	Sept. 30	June 30	Sept. 30	Sept. 30	Sept. 30
	2018	2018	2017 ⁽¹⁾	2018	2017 ⁽¹⁾
Premiums and deposits					
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					
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

	September 30, 2018				
	Market Value	Investment deficiency by benefit type			Total ⁽¹⁾
		Income	Maturity	Death	
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	(60)	(64)	15	(69)
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	3,794	3,398	3,551	3,259
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.

	Sept. 30	June 30	Dec. 31
	2018	2018	2017
Return on Equity - Net earnings basis⁽¹⁾			
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⁾			
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	AA	AA		NR
	Financial Strength Senior Debt	A (high)					
	Subordinated Debt				AA (low)		
Fitch Ratings	Insurer Financial Strength		AA	AA	AA	AA	AA
	Senior Debt	A					
	Subordinated Debt				A+		
Moody's Investors Service	Insurance Financial Strength		Aa3	Aa3	Aa3		Aa3
Standard & Poor's Ratings Services	Insurer Financial Strength		AA	AA	AA		AA
	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 bclMC.

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.

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	<u>1,483</u>	<u>1,483</u>	<u>1,400</u>	<u>4,399</u>	<u>4,169</u>
	<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)	<u>107</u>	<u>153</u>	<u>93</u>	<u>337</u>	<u>240</u>
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)	<u>34</u>	<u>33</u>	<u>35</u>	<u>100</u>	<u>96</u>
Net earnings - common shareholders	<u><u>\$ 689</u></u>	<u><u>\$ 831</u></u>	<u><u>\$ 581</u></u>	<u><u>\$ 2,251</u></u>	<u><u>\$ 1,757</u></u>
Earnings per common share (note 12)					
Basic	<u>\$ 0.697</u>	<u>\$ 0.839</u>	<u>\$ 0.587</u>	<u>\$ 2.277</u>	<u>\$ 1.776</u>
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 2018	December 31 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)
	4,929	4,470
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)
	(1,007)	(1,403)
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)
	(3,606)	(3,151)
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).

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>

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.

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	<u>8,400</u>	<u>90,048</u>	<u>1,134</u>	<u>99,582</u>
Available-for-sale financial assets				
Bonds	—	12,904	—	12,904
Stocks	6	6	1	13
Total available-for-sale financial assets	<u>6</u>	<u>12,910</u>	<u>1</u>	<u>12,917</u>
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	<u>\$ 13,078</u>	<u>\$ 110,669</u>	<u>\$ 6,199</u>	<u>\$ 129,946</u>
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	<u>\$ 3</u>	<u>\$ 2,910</u>	<u>\$ 18</u>	<u>\$ 2,931</u>

⁽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.

7. Fair Value Measurement (cont'd)

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
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.

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	Range of 2.5% - 10.3%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 4.0% - 7.5%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 2.3%	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
	221,995	217,823
Accrued income	401	373
Other liabilities	(3,034)	(2,441)
Non-controlling mutual funds interest	845	1,602
Total	\$ 220,207	\$ 217,357

(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	2,850	7,643
Balance, end of period	\$ 220,207	\$ 208,046

⁽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:

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Pension plans				
Service costs	\$ 57	\$ 54	\$ 171	\$ 161
Net interest costs	6	6	19	19
Curtailment	—	(20)	(1)	(22)
	<u>63</u>	<u>40</u>	<u>189</u>	<u>158</u>
Other post-employment benefits				
Service costs	1	1	2	2
Net interest costs	3	4	10	11
	<u>4</u>	<u>5</u>	<u>12</u>	<u>13</u>
Pension plans and other post-employment benefits expense - Consolidated Statements of Earnings	<u>67</u>	<u>45</u>	<u>201</u>	<u>171</u>
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	<u>(79)</u>	<u>(137)</u>	<u>(275)</u>	<u>(24)</u>
Total pension plans and other post-employment benefits expense (income) including re-measurements	<u>\$ (12)</u>	<u>\$ (92)</u>	<u>\$ (74)</u>	<u>\$ 147</u>

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:

	<u>September 30</u>		<u>June 30</u>		<u>December 31</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2017</u>	<u>2016</u>
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.

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.

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
	12,076	5,438	14,810	9	32,333
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	1,160	411	1,126	(7)	2,690
Income taxes (recovery)	203	68	68	(2)	337
Net earnings (loss) before non-controlling interests	957	343	1,058	(5)	2,353
Non-controlling interests	(2)	3	1	—	2
Net earnings (loss)	959	340	1,057	(5)	2,351
Preferred share dividends	86	—	14	—	100
Net earnings (loss) before capital allocation	873	340	1,043	(5)	2,251
Impact of capital allocation	92	(7)	(81)	(4)	—
Net earnings (loss) - common shareholders	\$ 965	\$ 333	\$ 962	\$ (9)	\$ 2,251

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

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
	12,630	7,066	14,507	2	34,205
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	\$ 736	\$ 248	\$ 794	\$ (21)	\$ 1,757

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

IGM Financial Inc.

PART D

Management's Discussion and Analysis

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Financial Statements and Notes

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Please note that the bottom of each page in Part D contains two different page numbers. A page number with the prefix "D" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by IGM Financial Inc.

The attached documents concerning IGM Financial Inc. are documents prepared and publicly disclosed by such subsidiary. Certain statements in the attached documents, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of the subsidiary as set forth therein. Forward-looking statements are provided for the purposes of assisting the reader in understanding the subsidiary's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about the subsidiary's management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

For further information provided by the subsidiary as to the material factors that could cause actual results to differ materially from the content of forward-looking statements, the material factors and assumptions that were applied in making the forward-looking statements, and the subsidiary's policy for updating the content of forward-looking statements, please see the attached documents, including the section entitled Forward-Looking Statements. The reader is cautioned to consider these factors and assumptions carefully and not to put undue reliance on forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the three and nine months ended September 30, 2018 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements (Interim

Financial Statements) as well as the 2017 IGM Financial Inc. Annual Report and the 2018 IGM Financial Inc. First and Second Quarter Reports to Shareholders filed on www.sedar.com. Commentary in the MD&A as at and for the three and nine months ended September 30, 2018 is as of November 2, 2018.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The Interim Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with International

Accounting Standard 34, *Interim Financial Reporting* (IFRS) and are presented in Canadian dollars (Note 2 of the Interim Financial Statements).

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect IGM Financial's current expectations. Forward-looking statements are provided to assist the reader in understanding the Company's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future. Readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Company, as well as the outlook for North American and international economies, for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. While the Company considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

A variety of material factors, many of which are beyond the Company's and its subsidiaries' control, affect the operations, performance and results of the Company, and

its subsidiaries, and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, operational and reputational risks, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned that the foregoing list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not place undue reliance on forward-looking statements.

Other than as specifically required by applicable Canadian law, the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties of the Company's business and material factors or assumptions on which information contained in forward-looking statements is based is provided in its disclosure materials, including this Management's Discussion and Analysis and its most recent Annual Information Form, filed with the securities regulatory authorities in Canada, available at www.sedar.com.

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

Net earnings available to common shareholders, which is an additional measure in accordance with IFRS, may be subdivided into two components consisting of:

- Adjusted net earnings available to common shareholders; and
- Other items, which include the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful.

"Adjusted net earnings available to common shareholders", "adjusted diluted earnings per share" (EPS) and "adjusted return on average common equity" (ROE) are non-IFRS financial measures which are used to provide management and investors with additional measures to assess earnings performance. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before interest and taxes" (EBIT), "earnings before interest, taxes, depreciation and amortization before sales commissions" (EBITDA before sales commissions), and "earnings before interest, taxes, depreciation and amortization after sales commissions" (EBITDA after sales commissions) are also non-IFRS financial measures. EBIT, EBITDA before sales commissions and EBITDA after sales commissions are alternative measures

of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. The two EBITDA measures have been introduced following the adoption of IFRS 15. EBITDA before sales commissions excludes all mutual fund sales commissions and is comparable to prior periods. EBITDA after sales commissions includes all sales commissions and highlights aggregate cash flows. Other items of a non-recurring nature, or that could make the period-over-period comparison of results from operations less meaningful, are further excluded to arrive at EBITDA before sales commissions and EBITDA after sales commissions. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before income taxes" and "net earnings available to common shareholders" are additional IFRS measures which are used to provide management and investors with additional measures to assess earnings performance. These measures are considered additional IFRS measures as they are in addition to the minimum line items required by IFRS and are relevant to an understanding of the entity's financial performance.

Refer to the appropriate reconciliations of non-IFRS financial measures to reported results in accordance with IFRS in Tables 1 to 4.

IGM FINANCIAL INC.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

IGM Financial Inc. (TSX:IGM) is one of Canada's premier financial services companies. The Company's principal businesses are Investors Group Inc. and Mackenzie Financial Corporation, each operating distinctly primarily within the advice segment of the financial services market.

Total assets under management were \$159.7 billion at September 30, 2018, a record quarter end high for the company, compared with \$150.0 billion at September 30, 2017, as detailed in Tables 6 and 7. Average total assets under management for the third quarter of 2018 were \$160.4 billion compared to \$147.8 billion in the third quarter of 2017. Average total assets under management for the nine months ended September 30, 2018 were \$158.2 billion compared to \$147.6 billion for the nine months ended September 30, 2017.

Investment fund assets under management were \$153.4 billion at September 30, 2018 compared with \$144.6 billion at September 30, 2017. Average investment fund assets under management for the third quarter of 2018 were \$154.0 billion compared to \$142.4 billion in the third quarter of 2017. Average investment fund assets under management for the nine months ended September 30, 2018 were \$151.7 billion compared to \$142.3 billion for the nine months ended September 30, 2017.

Net earnings available to common shareholders for the three months ended September 30, 2018 were \$198.2 million or 82 cents per share compared with net earnings available to common shareholders of \$173.4 million or 72 cents per share for the comparative period in 2017. Adjusted net earnings available to common shareholders, excluding other items outlined below, for the three months ended September 30, 2018 were \$222.7 million or 92 cents per share, an all time high level in the Company's history.

Net earnings available to common shareholders for the nine months ended September 30, 2018 were \$587.4 million or \$2.44 per share compared to net earnings available to common shareholders of \$551.3 million or \$2.29 per share for the comparative period in 2017. Adjusted net earnings available to common shareholders, excluding other items outlined below, for the nine months ended September 30, 2018 were \$611.9 million or \$2.54 per share compared to adjusted net earnings available to common shareholders, excluding other items, of \$536.4 million or \$2.23 per share.

Other items for the three and nine months ended September 30, 2018 consisted of:

- Restructuring and other charges of \$16.7 million after-tax (\$22.7 million pre-tax) resulting from the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve the Company's

offerings and operational effectiveness. Restructuring and other charges were recorded in Non-commission expenses in the Consolidated Statements of Earnings.

- A premium of \$7.8 million after-tax (\$10.7 million pre-tax) paid on the early redemption of the \$375 million 7.35% debentures on August 10, 2018. The premium was recorded in Interest expense in the Consolidated Statements of Earnings.

Other items for the nine months ended September 30, 2017 consisted of:

- Favourable revaluation of the Company's registered pension plan obligation of \$36.8 million (\$50.4 million pre-tax), reflecting a new policy which limits the possibility of certain benefit increases in the future.
- Restructuring and other charges of \$16.8 million after-tax (\$23.0 million pre-tax) including severance and termination costs largely associated with the reduction of our region office footprint.
- An after-tax charge of \$5.1 million representing the Company's proportionate share in Great-West Lifeco Inc.'s restructuring provision.

Shareholders' equity was \$4.6 billion as at September 30, 2018 compared to \$4.8 billion at December 31, 2017. Return on average common equity based on adjusted net earnings for the nine months ended September 30, 2018 was 18.9% compared with 15.3% for the comparative period in 2017. The reduction in Shareholders' equity in the nine month period was largely due to the adoption of IFRS 15 which resulted in an adjustment to opening retained earnings of \$514.6 million. The quarterly dividend per common share declared in the third quarter of 2018 was 56.25 cents, unchanged from the second quarter of 2018.

ADOPTION OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

On January 1, 2018, the Company adopted a change in accounting policy (IFRS 15 *Revenue from contracts with Customers*) which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers (Note 2 to the Interim Financial Statements). The standard outlines various criteria for the eligibility of capitalizing contract costs.

Commissions are paid on investment product sales where the Company either receives a fee directly from the client or where it receives a fee directly from the investment fund. Prior to January 1, 2018, commissions paid on the sale of investment product sales were capitalized and amortized over a maximum period of seven years. The application of IFRS 15 has resulted

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES⁽¹⁾

(\$ millions)	THREE MONTHS ENDED			NINE MONTHS ENDED	
	2018 SEP. 30	2018 JUN. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30
Adjusted net earnings available to common shareholders – Non-IFRS measure	\$ 222.7	\$ 203.7	\$ 173.4	\$ 611.9	\$ 536.4
Premium paid on early redemption of debentures, net of tax	(7.8)	–	–	(7.8)	–
Restructuring and other, net of tax	(16.7)	–	–	(16.7)	(16.8)
Pension plan, net of tax	–	–	–	–	36.8
Proportionate share of associate's provision	–	–	–	–	(5.1)
Net earnings available to common shareholders – IFRS	\$ 198.2	\$ 203.7	\$ 173.4	\$ 587.4	\$ 551.3
Adjusted net earnings per share⁽²⁾ available to common shareholders – Non-IFRS measure	\$ 0.92	\$ 0.85	\$ 0.72	\$ 2.54	\$ 2.23
Premium paid on early redemption of debentures, net of tax	(0.03)	–	–	(0.03)	–
Restructuring and other, net of tax	(0.07)	–	–	(0.07)	(0.07)
Pension plan, net of tax	–	–	–	–	0.15
Proportionate share of associate's provision	–	–	–	–	(0.02)
Net earnings per share⁽²⁾ available to common shareholders – IFRS	\$ 0.82	\$ 0.85	\$ 0.72	\$ 2.44	\$ 2.29
EBITDA before sales commissions – Non-IFRS measure	\$ 360.8	\$ 342.2	\$ 330.8	\$ 1,036.2	\$ 1,000.7
Sales-based commissions paid	(40.5)	(44.5)	(60.0)	(147.3)	(208.0)
EBITDA after sales commissions – Non-IFRS measure	320.3	297.7	270.8	888.9	792.7
Sales-based commissions paid subject to amortization	13.5	12.7	60.0	42.5	208.0
Amortization of capitalized sales commissions	(3.8)	(3.4)	(57.0)	(10.1)	(173.3)
Amortization of capital assets and intangible assets and other	(14.0)	(13.8)	(15.3)	(41.7)	(43.0)
Interest expense on long-term debt	(27.0)	(28.8)	(28.9)	(86.1)	(84.4)
Adjusted Earnings before income taxes – Non-IFRS measure	289.0	264.4	229.6	793.5	700.0
Premium paid on early redemption of debentures	(10.7)	–	–	(10.7)	–
Restructuring and other	(22.7)	–	–	(22.7)	(23.0)
Pension plan	–	–	–	–	50.4
Proportionate share of associate's provision	–	–	–	–	(5.1)
Earnings before income taxes	255.6	264.4	229.6	760.1	722.3
Income taxes	(55.2)	(58.5)	(54.0)	(166.1)	(164.4)
Perpetual preferred share dividends	(2.2)	(2.2)	(2.2)	(6.6)	(6.6)
Net earnings available to common shareholders – IFRS	\$ 198.2	\$ 203.7	\$ 173.4	\$ 587.4	\$ 551.3

(1) On January 1, 2018, the Company adopted IFRS 15 which resulted in an increase in certain sales commissions which are expensed immediately, offset by a decrease in capitalized sales commissions and related amortization.

(2) Diluted earnings per share

in a change to the accounting policy related to the Company's commission expense as follows:

- Commissions that are paid on investment product sales where the Company receives a fee directly from the client are capitalized and amortized over their estimated useful lives, not exceeding a period of seven years.

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

This new accounting standard has no impact on the economics of our business. The implementation of IFRS 15 will result in a change in timing of the recognition of commission expenses but has no effect on the cash flows of the Company.

On adoption of IFRS 15, the Company introduced two measures of EBITDA (Table 1). EBITDA before sales commissions excludes all mutual fund sales commissions and is comparable to prior periods and EBITDA after sales commissions includes all sales commissions and highlights aggregate cash flows.

REPORTABLE SEGMENTS

IGM Financial's reportable segments are:

- IG Wealth Management (IG Wealth Management or IG)
- Mackenzie Investments (Mackenzie Investments or Mackenzie)
- Corporate and Other

These segments, as shown in Tables 2, 3 and 4 reflect the Company's internal financial reporting and performance measurement. In the third quarter of 2018, the Company announced that it has rebranded Investors Group as IG Wealth Management. In 2017, the Company combined the investment management functions of IG Wealth Management and Mackenzie Investments resulting in the formation of a single

global investment management organization under Mackenzie to support both companies. As a result, the Company changed the definition of the Mackenzie segment to exclude investment advisory mandates to IG Wealth Management effective October 1, 2017. These mandates are no longer reflected within the Mackenzie segment's assets under management, net sales and revenues. With these changes, the IG Wealth Management and Mackenzie segments each reflect their proportionate share of the expenses of the investment management function to better align with internal reporting. Segment operations are discussed in each of their respective Review of Segment Operating Results sections of the MD&A.

Certain items reflected in Tables 2, 3, and 4 are not allocated to segments:

- *Interest expense* – represents interest expense on long-term debt. The change in interest expense in the period resulted from the impact of the following transactions:
 - The issuance of \$250 million 4.115% debentures on December 7, 2017;

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q3 2018 VS. Q3 2017

THREE MONTHS ENDED (\$ millions)	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		CORPORATE & OTHER		TOTAL	
	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30
Revenues								
Fee income	\$ 497.0	\$ 473.9	\$ 205.1	\$ 201.5	\$ 74.1	\$ 65.4	\$ 776.2	\$ 740.8
Net investment income and other	13.3	5.3	(1.1)	(0.3)	43.6	27.5	55.8	32.5
	510.3	479.2	204.0	201.2	117.7	92.9	832.0	773.3
Expenses								
Commission	150.7	156.2	73.2	74.2	46.2	45.6	270.1	276.0
Non-Commission	146.1	142.1	78.1	81.6	21.7	15.1	245.9	238.8
	296.8	298.3	151.3	155.8	67.9	60.7	516.0	514.8
Earnings before interest and taxes	\$ 213.5	\$ 180.9	\$ 52.7	\$ 45.4	\$ 49.8	\$ 32.2	316.0	258.5
Interest expense							(27.0)	(28.9)
Premium paid on early redemption of debentures							(10.7)	–
Restructuring and other							(22.7)	–
Earnings before income taxes							255.6	229.6
Income taxes							55.2	54.0
Net earnings							200.4	175.6
Perpetual preferred share dividends							2.2	2.2
Net earnings available to common shareholders							\$ 198.2	\$ 173.4
Adjusted net earnings available to common shareholders⁽¹⁾							\$ 222.7	\$ 173.4

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

TABLE 3: CONSOLIDATED OPERATING RESULTS BY SEGMENT – YTD 2018 VS. YTD 2017

NINE MONTHS ENDED (\$ millions)	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		CORPORATE & OTHER		TOTAL	
	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30
Revenues								
Fee income	\$ 1,463.0	\$ 1,434.4	\$ 611.4	\$ 604.0	\$ 219.1	\$ 197.3	\$ 2,293.5	\$ 2,235.7
Net investment income and other	35.7	45.4	1.2	(2.1)	127.2	87.3	164.1	130.6
	1,498.7	1,479.8	612.6	601.9	346.3	284.6	2,457.6	2,366.3
Expenses								
Commission	467.1	488.7	221.4	224.3	137.8	136.7	826.3	849.7
Non-Commission	437.7	437.5	248.2	247.3	65.8	47.4	751.7	732.2
	904.8	926.2	469.6	471.6	203.6	184.1	1,578.0	1,581.9
Earnings before interest and taxes	\$ 593.9	\$ 553.6	\$ 143.0	\$ 130.3	\$ 142.7	\$ 100.5	879.6	784.4
Interest expense							(86.1)	(84.4)
Premium paid on early redemption of debentures							(10.7)	–
Restructuring and other							(22.7)	(23.0)
Pension plan							–	50.4
Proportionate share of associate's provision							–	(5.1)
Earnings before income taxes							760.1	722.3
Income taxes							166.1	164.4
Net earnings							594.0	557.9
Perpetual preferred share dividends							6.6	6.6
Net earnings available to common shareholders							\$ 587.4	\$ 551.3
Adjusted net earnings available to common shareholders⁽¹⁾							\$ 611.9	\$ 536.4

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

TABLE 4: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q3 2018 VS. Q2 2018

THREE MONTHS ENDED (\$ millions)	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		CORPORATE & OTHER		TOTAL	
	2018 SEP. 30	2018 JUN. 30	2018 SEP. 30	2018 JUN. 30	2018 SEP. 30	2018 JUN. 30	2018 SEP. 30	2018 JUN. 30
Revenues								
Fee income	\$ 497.0	\$ 483.8	\$ 205.1	\$ 203.4	\$ 74.1	\$ 72.6	\$ 776.2	\$ 759.8
Net investment income and other	13.3	12.1	(1.1)	2.5	43.6	41.6	55.8	56.2
	510.3	495.9	204.0	205.9	117.7	114.2	832.0	816.0
Expenses								
Commission	150.7	151.6	73.2	72.9	46.2	45.6	270.1	270.1
Non-Commission	146.1	146.9	78.1	84.3	21.7	21.5	245.9	252.7
	296.8	298.5	151.3	157.2	67.9	67.1	516.0	522.8
Earnings before interest and taxes	\$ 213.5	\$ 197.4	\$ 52.7	\$ 48.7	\$ 49.8	\$ 47.1	316.0	293.2
Interest expense							(27.0)	(28.8)
Premium paid on early redemption of debentures							(10.7)	–
Restructuring and other							(22.7)	–
Earnings before income taxes							255.6	264.4
Income taxes							55.2	58.5
Net earnings							200.4	205.9
Perpetual preferred share dividends							2.2	2.2
Net earnings available to common shareholders							\$ 198.2	\$ 203.7
Adjusted net earnings available to common shareholders⁽¹⁾							\$ 222.7	\$ 203.7

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

- The redemption of \$150 million 6.58% debentures on March 7, 2018;
- The issuance of \$200 million 4.174% debentures on July 11, 2018, and;
- The early redemption of \$375 million 7.35% debentures on August 10, 2018.
- *Premium paid on early redemption of debentures* – represents the premium paid on the early redemption of the \$375 million 7.35% debentures on August 10, 2018. The premium was recorded in Interest expense in the Consolidated Statements of Earnings.
- *Restructuring and other* – resulting from efforts in respect of the implementation of a number of initiatives to assist in the Company's operational effectiveness:
 - Charges recorded in the third quarter of 2018 totalling \$22.7 million (\$16.7 million after-tax) resulted from the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve the Company's offerings and operational effectiveness.
 - Charges recorded in the second quarter of 2017 totalling \$23.0 million (\$16.8 million after-tax) represented severance and termination costs largely associated with the reduction of our region office footprint.
- *2017 Pension plan* – change in policy relating to granting increases to certain pension benefits paid under the Company's registered pension plan, resulting in a one-time expense reduction of \$50.4 million (\$36.8 million after-tax). The Company, at its discretion, may from time to time increase the benefits paid to retired members of the plan. The Company

has implemented a new policy that limits the possibility of future benefit increases.

- *2017 Proportionate share of associate's provision* – represents the Company's proportionate share in Great-West Lifeco Inc.'s restructuring provision.
- *Income taxes* – changes in the effective tax rates are shown in Table 5.
Tax planning may result in the Company recording lower levels of income taxes. Management monitors the status of its income tax filings and regularly assesses the overall adequacy of its provision for income taxes and, as a result, income taxes recorded in prior years may be adjusted in the current year. The effect of changes in management's best estimates reported in adjusted net earnings is reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.
- *Perpetual preferred share dividends* – represents the dividends declared on the Company's 5.90% non-cumulative first preferred shares.

SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were \$159.7 billion at September 30, 2018 compared to \$150.0 billion at September 30, 2017. Changes in total assets under management are detailed in Tables 6 and 7.

Changes in assets under management for IG Wealth Management and Mackenzie are discussed further in each of their respective Review of the Business sections in the MD&A.

TABLE 5: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			NINE MONTHS ENDED	
	2018 SEP. 30	2018 JUN. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30
Income taxes at Canadian federal and provincial statutory rates	26.79 %	26.80 %	26.82 %	26.80 %	26.83 %
Effect of:					
Proportionate share of associates' earnings	(3.94)	(3.52)	(2.77)	(3.79)	(2.85)
Tax loss consolidation ⁽¹⁾	(1.35)	(1.29)	–	(1.35)	(1.24)
Other items	0.09	0.13	(0.52)	0.19	(0.17)
Effective income tax rate – adjusted net earnings	21.59	22.12	23.53	21.85	22.57
Proportionate share of associate's provision	–	–	–	–	0.19
Effective income tax rate – net earnings	21.59 %	22.12 %	23.53 %	21.85 %	22.76 %

(1) See Note 25 – Related Party Transactions of the Consolidated Financial Statements included in the 2017 IGM Financial Inc. Annual Report (Annual Financial Statements).

TABLE 6: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q3 2018 VS. Q3 2017⁽¹⁾

THREE MONTHS ENDED (\$ millions)	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		INVESTMENT PLANNING COUNSEL		INTERCOMPANY ELIMINATIONS		CONSOLIDATED ⁽²⁾	
	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30
Investment funds										
Mutual funds⁽³⁾⁽⁴⁾										
Gross sales	\$ 2,014	\$ 2,090	\$ 2,252	\$ 1,834	\$ 219	\$ 165	\$ –	\$ –	\$ 4,485	\$ 4,089
Net sales	(64)	287	(57)	305	(6)	3	–	–	(127)	595
ETFs										
Net creations			377	286			–	–	377	286
Mutual fund investment in ETF			(62)	(52)			(51)	–	(113)	(52)
Total investment fund net sales	(64)	287	258	539	(6)	3	(51)	–	137	829
Sub-advisory, institutional and other accounts										
Net sales			(395)	73			32	(68)	(363)	5
Combined net sales⁽²⁾	\$ (64)	\$ 287	\$ (137)	\$ 612	\$ (6)	\$ 3	\$ (19)	\$ (68)	\$ (226)	\$ 834
Change in total assets under management										
Net sales	\$ (64)	\$ 287	\$ (137)	\$ 612	\$ (6)	\$ 3	\$ (19)	\$ (68)	\$ (226)	\$ 834
Investment returns	294	633	531	(136)	(24)	38	10	2	811	537
Net change in assets	230	920	394	476	(30)	41	(9)	(66)	585	1,371
Beginning assets	88,762	84,306	66,953	60,364	5,562	5,136	(2,148)	(1,162)	159,129	148,644
Ending assets	\$ 88,992	\$ 85,226	\$ 67,347	\$ 60,840	\$ 5,532	\$ 5,177	\$ (2,157)	\$ (1,228)	\$ 159,714	\$ 150,015
Total assets under management consists of:										
Investment funds										
Mutual funds ⁽³⁾⁽⁴⁾	\$ 88,992	\$ 85,226	\$ 57,343	\$ 53,643	\$ 5,532	\$ 5,177	\$ –	\$ –	\$ 151,867	\$ 144,046
ETFs			2,963	906			–	–	2,963	906
Mutual fund investment in ETF			(813)	(333)			(587)	–	(1,400)	(333)
Total investment funds	88,992	85,226	59,493	54,216	5,532	5,177	(587)	–	153,430	144,619
Sub-advisory, institutional and other accounts										
			7,854	6,624			(1,570)	(1,228)	6,284	5,396
Ending assets⁽²⁾	\$ 88,992	\$ 85,226	\$ 67,347	\$ 60,840	\$ 5,532	\$ 5,177	\$ (2,157)	\$ (1,228)	\$ 159,714	\$ 150,015

(1) Effective October 1, 2017, the Mackenzie segment has been redefined to exclude advisory mandates to IG Wealth Management from its assets under management and revenues. Within Table 6 and Table 7, this change has been applied retroactively to provide comparability of results.

(2) Consolidated results eliminate double counting where business is reflected within multiple segments:

- Included with Mackenzie's results were advisory mandates to other segments with assets of \$2.2 billion at September 30, 2018 (2017 – \$1.2 billion) and net sales of \$19 million for the third quarter of 2018 (2017 – \$68 million).
- Included in ETFs are Mackenzie mutual fund investments in ETFs totalling \$813 million at September 30, 2018 (2017 – \$333 million) and net sales of \$62 million for the third quarter of 2018 (2017 – \$52 million).

(3) During the third quarter of 2018, an institutional client, which includes Mackenzie mutual funds within its investment offerings, made fund allocation changes which resulted in sales of \$28 million, redemptions of \$293 million and net redemptions of \$265 million.

(4) IG Wealth Management and Investment Planning Counsel AUM and net sales includes separately managed accounts.

TABLE 7: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – 2018 VS. 2017⁽¹⁾

NINE MONTHS ENDED (\$ millions)	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		INVESTMENT PLANNING COUNSEL		INTERCOMPANY ELIMINATIONS		CONSOLIDATED ⁽²⁾	
	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30	2018 SEP. 30	2017 SEP. 30
Investment funds										
Mutual funds⁽³⁾⁽⁴⁾										
Gross sales	\$ 6,957	\$ 7,379	\$ 7,623	\$ 6,890	\$ 731	\$ 612	\$ –	\$ –	\$ 15,311	\$ 14,881
Net sales	610	1,612	259	828	47	31	–	–	916	2,471
ETFs										
Net creations			1,662	789			–	–	1,662	789
Mutual fund investment in ETF			(448)	(314)			(463)	–	(911)	(314)
Total investment fund net sales	610	1,612	1,473	1,303	47	31	(463)	–	1,667	2,946
Sub-advisory, institutional and other accounts										
Net sales			(263)	108			(192)	(69)	(455)	39
Combined net sales⁽²⁾	\$ 610	\$ 1,612	\$ 1,210	\$ 1,411	\$ 47	\$ 31	\$ (655)	\$ (69)	\$ 1,212	\$ 2,985
Change in total assets under management										
Net sales	\$ 610	\$ 1,612	\$ 1,210	\$ 1,411	\$ 47	\$ 31	\$ (655)	\$ (69)	\$ 1,212	\$ 2,985
Investment returns	374	2,372	1,628	1,772	108	238	(121)	(40)	1,989	4,342
Net change in assets	984	3,984	2,838	3,183	155	269	(776)	(109)	3,201	7,327
Beginning assets	88,008	81,242	64,509	57,657	5,377	4,908	(1,381)	(1,119)	156,513	142,688
Ending assets	\$ 88,992	\$ 85,226	\$ 67,347	\$ 60,840	\$ 5,532	\$ 5,177	\$ (2,157)	\$ (1,228)	\$ 159,714	\$ 150,015

(1) Effective October 1, 2017, the Mackenzie segment has been redefined to exclude advisory mandates to IG Wealth Management from its assets under management and revenues. Within Table 6 and Table 7, this change has been applied retroactively to provide comparability of results.

(2) Consolidated results eliminate double counting where business is reflected within multiple segments:

– Included with Mackenzie's results were advisory mandates to other segments with assets of \$2.2 billion at September 30, 2018 (2017 – \$1.2 billion) and net sales of \$655 million for the nine months ending September 30, 2018 (2017 – \$69 million).

– Included in ETFs are mutual fund investments in ETFs totalling \$813 million at September 30, 2018 (2017 – \$333 million) and net sales of \$448 million for the nine months ending September 30, 2018 (2017 – \$314 million).

(3) During the first nine months of 2018, institutional clients, which include Mackenzie mutual funds within their investment offerings, made fund allocation changes which resulted in sales of \$409 million, redemptions of \$807 million and net redemptions of \$398 million.

During the first nine months of 2017, institutional clients, which include Mackenzie mutual funds within their investment offerings, made fund allocation changes which resulted in sales of \$313 million, redemptions of \$618 million and net redemptions of \$305 million.

(4) IG Wealth Management and Investment Planning Counsel total AUM and net sales includes separately managed accounts.

SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 8 includes the eight most recent quarters and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.

Changes in average daily investment fund assets under management over the eight most recent quarters, as shown in Table 8, largely reflect the impact of strong net sales of the Company and changes in domestic and foreign markets.

TABLE 8: SUMMARY OF QUARTERLY RESULTS

	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4
Consolidated statements of earnings (\$ millions)								
Revenues								
Management fees	\$ 573.8	\$ 562.8	\$ 556.6	\$ 564.4	\$ 541.9	\$ 547.0	\$ 527.7	\$ 525.7
Administration fees	109.1	107.1	107.6	110.4	109.1	111.2	109.0	109.0
Distribution fees	93.3	89.9	93.3	95.2	89.8	94.8	105.2	117.7
Net investment income and other	55.8	56.2	52.1	36.7	32.5	50.3	47.8	48.7
	832.0	816.0	809.6	806.7	773.3	803.3	789.7	801.1
Expenses								
Commission	270.1	270.1	286.1	288.1	276.0	284.4	289.3	288.2
Non-commission	245.9	252.7	253.1	240.3	238.8	246.5	246.9	231.1
Interest	27.0	28.8	30.3	29.7	28.9	28.7	26.8	23.2
	543.0	551.6	569.5	558.1	543.7	559.6	563.0	542.5
Earnings before undernoted	289.0	264.4	240.1	248.6	229.6	243.7	226.7	258.6
Premium paid on early redemption of debentures	(10.7)	–	–	–	–	–	–	–
Restructuring and other	(22.7)	–	–	(172.3)	–	(23.0)	–	–
Pension plan	–	–	–	–	–	50.4	–	–
Proportionate share of associate's one-time charges	–	–	–	(14.0)	–	–	–	–
Proportionate share of associate's provision	–	–	–	–	–	(5.1)	–	–
Earnings before income taxes	255.6	264.4	240.1	62.3	229.6	266.0	226.7	258.6
Income taxes	55.2	58.5	52.4	9.5	54.0	63.0	47.4	23.4
Net earnings	200.4	205.9	187.7	52.8	175.6	203.0	179.3	235.2
Perpetual preferred share dividends	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Net earnings available to common shareholders	\$ 198.2	\$ 203.7	\$ 185.5	\$ 50.6	\$ 173.4	\$ 200.8	\$ 177.1	\$ 233.0
Reconciliation of Non-IFRS financial measures ⁽¹⁾ (\$ millions)								
Adjusted net earnings available to common shareholders – non-IFRS measure	\$ 222.7	\$ 203.7	\$ 185.5	\$ 191.4	\$ 173.4	\$ 185.9	\$ 177.1	\$ 199.0
Other items:								
Premium paid on early redemption of debentures, net of tax	(7.8)	–	–	–	–	–	–	–
Restructuring and other, net of tax	(16.7)	–	–	(126.8)	–	(16.8)	–	–
Pension plan, net of tax	–	–	–	–	–	36.8	–	–
Proportionate share of associate's one-time charges	–	–	–	(14.0)	–	–	–	–
Proportionate share of associate's provision	–	–	–	–	–	(5.1)	–	–
Reduction in income tax estimates related to certain tax filings	–	–	–	–	–	–	–	34.0
Net earnings available to common shareholders – IFRS	\$ 198.2	\$ 203.7	\$ 185.5	\$ 50.6	\$ 173.4	\$ 200.8	\$ 177.1	\$ 233.0
Earnings per Share (¢)								
Adjusted net earnings available to common shareholders ⁽¹⁾								
– Basic	92	85	77	80	72	77	74	83
– Diluted	92	85	77	79	72	77	74	83
Net earnings available to common shareholders								
– Basic	82	85	77	21	72	83	74	97
– Diluted	82	85	77	21	72	83	74	97
Average daily investment fund assets (\$ billions)	\$ 154.0	\$ 150.9	\$ 150.1	\$ 148.1	\$ 142.4	\$ 144.3	\$ 140.1	\$ 135.2
Total investment fund assets under management (\$ billions)	\$ 153.4	\$ 152.5	\$ 149.2	\$ 149.8	\$ 144.6	\$ 143.3	\$ 142.1	\$ 137.6
Total assets under management (\$ billions)	\$ 159.7	\$ 159.1	\$ 155.8	\$ 156.5	\$ 150.0	\$ 148.6	\$ 147.5	\$ 142.7

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in addition to the Summary of Consolidated Operating Results section included in this MD&A for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

IG WEALTH MANAGEMENT

REVIEW OF THE BUSINESS

IG WEALTH MANAGEMENT STRATEGY

IG Wealth Management's promise is to inspire financial confidence.

Our strategic mandate is to be Canada's financial partner of choice.

Our value proposition is to deliver better Gamma, better Beta and better Alpha:

- Gamma – the value of all efforts that sit outside of investment portfolio construction. This includes the value that a financial advisor adds to a client relationship, and comes from the creation and follow through of a well constructed financial plan.
- Beta – the value created by well constructed investment portfolios – achieving expected investment returns for the lowest possible risk.
- Alpha – the value of active management – achieving returns superior to passive benchmarks with a similar composition and risk profile.

We seek to deliver our value proposition through:

- Superior Advice – Acquiring a deep knowledge of Canadian investors and using those insights to shape everything we do.
- Segmented Client Experiences – Creating segmented experiences personalized throughout our clients' lifetimes.
- Entrepreneurial Advisors – Inspiring our entrepreneurial advisors to constantly deliver an engaging experience and a holistic plan that seeks to deliver superior outcomes.
- Powerful Financial Solutions – Providing the most powerful, competitively priced, comprehensive suite of solutions.
- Business processes that are simple, easy and digitized – Re-designing client and advisor interactions to simplify processes, reduce errors, and digitize the experience with an appropriate cost structure.
- Enabled by a high-performing and diverse culture.

BRANDING

The Company announced in the third quarter that it has rebranded Investors Group as IG Wealth Management, reflecting its central focus on helping clients grow their wealth. The firm also announced the launch of the IG Living Plan™, a holistic, client-centric approach to financial planning that reflects the evolving needs, goals and aspirations of Canadian families and individuals.

The IG Living Plan provides a single, integrated view of all aspects of a client's finances including retirement and estate planning, investments and tax strategies, creating a truly synchronized and comprehensive plan. The IG Living Plan leverages the experience and expertise of IG Wealth Management's 2,053 Consultant practices, including the largest

number of Certified Financial Planners in Canada, who serve over 1 million clients in all provinces and territories.

CONSULTANT NETWORK

IG Wealth Management distinguishes itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships. The value of this approach is illustrated through recent independent studies demonstrating that households receiving advice from a financial advisor have greater wealth than non-advised households, and that this advantage increases based on the length of the relationship with the financial advisor. At the centre of these relationships is a national distribution network of Consultants based in region offices across Canada.

The following provides a breakdown of the IG Wealth Management Consultant network into its significant components at September 30, 2018:

- 2,053 Consultant practices (2,147 at September 30, 2017), which reflect Consultants with more than four years of IG Wealth Management experience. These practices may include Associates as described below. The level of Consultant practices is a key measurement of our business as they serve clientele representing approximately 95% of AUM.
- 749 New Consultants (995 at September 30, 2017), which are those Consultants with less than four years of IG Wealth Management experience.
- 1,025 Associates and Regional Directors (1,004 at September 30, 2017). Associates are licensed team members of Consultant practices who provide financial planning services and advice to the clientele served by the team.
- IG Wealth Management had a total Consultant network of 3,827 (4,146 at September 30, 2017).

Starting in the first quarter of 2017, IG Wealth Management accelerated the departure of Consultants who were not expected to develop a successful practice. We also enhanced recruiting standards to achieve greater likelihood of success while also enhancing our culture and brand.

IG Wealth Management requires all Consultants with more than four years of experience to have or be enrolled to achieve the Certified Financial Planner (CFP) or its Quebec equivalent, Financial Planner (F.PI.) designations. The CFP and F.PI. designations are nationally recognized financial planning qualifications that require an individual to demonstrate financial planning competence through education, standardized examinations, continuing education requirements, and accountability to ethical standards. The Financial Planning Standards Council published in 2017 that IG Wealth

Management has more CFP designation holders than any other organization in Canada.

ADMINISTRATIVE SUPPORT AND COMMUNICATION FOR CONSULTANTS AND CLIENTS

Administrative support for Consultants and clients includes timely and accurate client account record-keeping and reporting, effective problem resolution support, and continuous improvements to servicing systems.

This administrative support is provided for Consultants and clients from both IG Wealth Management's head office in Winnipeg, Manitoba and IG Wealth Management's Quebec General Office located in Montreal for Consultants and clients residing in Quebec. The Quebec General Office has approximately 200 employees and operating units for most functions supporting approximately 830 Consultants throughout Quebec. Mutual fund assets under management in Quebec were approximately \$15.8 billion as at September 30, 2018.

DEALER PLATFORM

IG Wealth Management's dealer platform provides increased automation and supports both Mutual Fund Dealers Association (MFDA) and Investment Industry Regulatory Organization of Canada (IIROC) licensed advisors as well as new IIROC-based products designed to support the high net worth segment of our client base. The platform is expected to result in efficiencies over the long term. IG Wealth Management continues the transitioning of clients to this platform.

CLIENT COMMUNICATIONS

Communication with our clients includes regular reporting of their IG Wealth Management investment fund holdings and the change in asset values of these holdings. Individual clients experience different returns as a result of having different

composition of their portfolios in each quarter as illustrated on the accompanying charts. The first chart reflects in-quarter client account median rates of return for the current year.

The second chart reflects the client account median rates of return based on one, three and five year timeframes as at September 30, 2018. Both charts also illustrate upper and lower ranges of rates of return around the median for 90% of IG Wealth Management client accounts.

For the three and nine month periods ended September 30, 2018, the client account median rate of return was approximately 0.3% and 0.6%, respectively.

IG Wealth Management has long believed that providing our clients with personal account level performance and rate of return information over multiple time periods is a meaningful benefit to our clients and further demonstrates the value provided through advice over the history of our client relationships.

Our clients' statements include a multiple-period view of their performance, including one year, three year and five year rates of return.

ASSETS UNDER MANAGEMENT

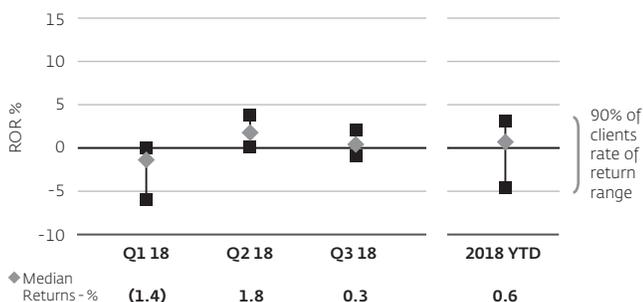
At September 30, 2018, IG Wealth Management's mutual fund assets under management were \$89.0 billion, an all-time quarter end high. The level of assets under management is influenced by three factors: sales, redemptions and investment returns of our funds. Changes in mutual fund assets under management for the periods under review are reflected in Table 9.

FUND PERFORMANCE

At September 30, 2018, 48.4% of IG Wealth Management mutual funds had a rating of three stars or better from the Morningstar¹ fund ranking service and 17.2% had a rating of four or five stars. This compared to the Morningstar¹ universe of 68.6% for three stars or better and 33.2% for four and five

Client Account Rate of Return (ROR) Experience

Quarterly and year to date returns



Client Account Rate of Return (ROR) Experience

As at September 30, 2018

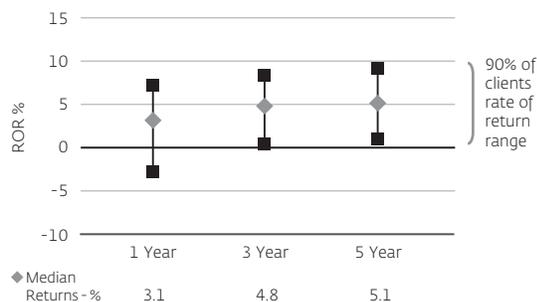


TABLE 9: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2018 SEP. 30	2018 JUN. 30	2017 SEP. 30	2018 JUN. 30	2017 SEP. 30
Sales	\$ 2,014	\$ 2,084	\$ 2,090	(3.4) %	(3.6) %
Redemptions	2,078	2,194	1,803	(5.3)	15.3
Net sales (redemptions)	(64)	(110)	287	41.8	N/M
Investment returns	294	1,769	633	(83.4)	(53.6)
Net change in assets	230	1,659	920	(86.1)	(75.0)
Beginning assets	88,762	87,103	84,306	1.9	5.3
Ending assets	\$ 88,992	\$ 88,762	\$ 85,226	0.3 %	4.4 %
Average daily assets	\$ 89,449	\$ 87,999	\$ 83,815	1.6 %	6.7 %
<hr/>					
NINE MONTHS ENDED (\$ millions)				% CHANGE	
	2018 SEP. 30	2017 SEP. 30			
Sales		\$ 6,957	\$ 7,379		(5.7) %
Redemptions		6,347	5,767		10.1
Net sales (redemptions)		610	1,612		(62.2)
Investment returns		374	2,372		(84.2)
Net change in assets		984	3,984		(75.3)
Beginning assets		88,008	81,242		8.3
Ending assets		\$ 88,992	\$ 85,226		4.4 %
Average daily assets		\$ 88,427	\$ 83,866		5.4 %

star funds at September 30, 2018. Morningstar Ratings[†] are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

CHANGES TO MUTUAL FUND PRODUCT OFFERING

IG Wealth Management continues to enhance the performance, scope and diversity of our investment offering with the introduction of new funds and other product changes that are well-suited to the long-term diverse needs of Canadian investors.

In the third quarter of 2018, IG Wealth Management announced proposed changes to simplify its mutual fund offering with investment fund changes and mergers including:

- Changes to the investment objectives and/or fundamental investment strategies of several funds so that they provide broader investment management diversification opportunities.
- Several fund mergers which are expected to provide investors with a streamlined and simplified product line-up, broaden investment management diversification opportunities and in some cases, may result in lower costs to clients.

HIGH NET WORTH OFFERINGS

IG Wealth Management has several offerings to address the needs of high net worth clients, which represent a growing segment of our client base, and continues to look at ways to provide further offerings to this segment. Assets under management for clients in this category totalled \$43.9 billion at September 30, 2018, an increase of 14.5% from one year ago, and represented 49% of total assets under management. Sales to high net worth clients totalled \$961 million for the third quarter of 2018 and represented 48% of total sales up from 43% in 2017. For the nine month period, sales to high net worth clients totalled \$3.1 billion and represented 44% of total sales up from 40% in 2017.

- Series U is currently available for households with investments in IG Wealth Management funds in excess of \$500,000 and provides a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At September 30, 2018, Series U assets under management had increased to \$17.1 billion, compared to \$12.4 billion at September 30, 2017, an increase of 38.0%.

- Series J is available for households with investments in IG Wealth Management funds in excess of \$500,000 and had assets of \$18.2 billion at September 30, 2018, a decrease of 13.4% from \$21.0 billion at September 30, 2017, largely as a result of transfer activity from Series J to Series U. Series J pricing structure bundles the cost of asset management and advice into one fee.
- *iProfile*™ – is a unique portfolio management program that is available for households with investments held at IG Wealth Management in excess of \$250,000. *iProfile* investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions. The *iProfile* program has a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At September 30, 2018, the *iProfile* program assets under management were \$8.5 billion, an increase of 74.8% from \$4.9 billion at September 30, 2017.

Unbundled Fee Structures

A growing portion of IG Wealth Management's client assets are in Series U and *iProfile*, which are products with unbundled fee structures where a separate advisory fee is charged to the client account by the dealer. At September 30, 2018, \$25.6 billion, or 29% of IG Wealth Management's mutual fund assets under management, were in products with unbundled fee structures, up 48.4% from \$17.3 billion at September 30, 2017 which represented 20% of assets under management. Sales of these products to high net worth clients totalled \$724 million for the third quarter of 2018, an increase of \$132 million from the third quarter of 2017, representing 75% of total high net worth sales and 36% of total mutual fund sales. For the nine months ended September 30, 2018, sales totalled \$2.3 billion, an increase of \$452 million from 2017, representing 73% of total high net worth sales and 32% of total mutual fund sales.

In 2019, the Company will be migrating all clients to unbundled fee products, which separate the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. Following this transition, IG Wealth Management will discontinue offering bundled purchase options for investment funds.

Separately Managed Accounts and Fee-Based Brokerage Account

IG Wealth Management's separately managed account program, Azure Managed Investments™, as well as its Fee-Based Account program, are both offered through IG Wealth Management's brokerage services firm, Investors Group Securities Inc.

Azure Managed Investments are discretionary dealer-managed accounts that allow clients to delegate responsibility for day-to-day investment decisions to a portfolio manager. There are seven different investment mandates available that provide core equity exposure in Canadian, U.S., North American and International equity markets.

IG Wealth Management's Fee-Based Account program is a non-discretionary, fee-based brokerage account offering clients the benefits of a holistic approach to managing their portfolio.

CHANGE IN ASSETS UNDER MANAGEMENT – 2018 VS. 2017

IG Wealth Management's mutual fund assets under management were \$89.0 billion at September 30, 2018, representing an increase of 4.4% from \$85.2 billion at September 30, 2017. Average daily mutual fund assets were \$89.4 billion in the third quarter of 2018, up 6.7% from \$83.8 billion in the third quarter of 2017.

For the quarter ended September 30, 2018, sales of IG Wealth Management mutual funds through its Consultant network were \$2.0 billion, a decrease of 3.6% from the comparable period in 2017. Mutual fund redemptions totalled \$2.1 billion, an increase of 15.3% from 2017. IG Wealth Management mutual fund net redemptions for the third quarter of 2018 were \$64 million compared with net sales of \$287 million in 2017. During the third quarter, investment returns resulted in an increase of \$294 million in mutual fund assets compared to an increase of \$633 million in the third quarter of 2017.

IG Wealth Management's annualized quarterly redemption rate for long-term funds was 8.7% in the third quarter of 2018, compared to 7.9% in the third quarter of 2017. IG Wealth Management's twelve month trailing redemption rate for long-term funds was 8.8% at September 30, 2018, compared to 8.5% at September 30, 2017, and remains well below the corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 16.9% at September 30, 2018.

For the nine months ended September 30, 2018, sales of IG Wealth Management mutual funds through its Consultant network were \$7.0 billion, a decrease of 5.7% from 2017. Mutual fund redemptions totalled \$6.3 billion, an increase of 10.1% from 2017. Net sales of IG Wealth Management mutual funds were \$610 million compared with net sales of \$1.6 billion in 2017. During 2018, investment returns resulted in an increase of \$374 million in mutual fund assets compared to an increase of \$2.4 billion in 2017.

CHANGE IN ASSETS UNDER MANAGEMENT – Q3 2018 VS. Q2 2018

IG Wealth Management's mutual fund assets under management were \$89.0 billion at September 30, 2018, an increase of 0.3% from \$88.8 billion at June 30, 2018. Average daily mutual fund assets were \$89.4 billion in the third quarter of 2018 compared to \$88.0 billion in the second quarter of 2018, an increase of 1.6%.

For the quarter ended September 30, 2018, sales of IG Wealth Management mutual funds through its Consultant network were \$2.0 billion, a decrease of 3.4% from the second quarter of 2018. Mutual fund redemptions, which totalled \$2.1 billion for the third quarter, decreased 5.3% from the previous quarter and the annualized quarterly redemption rate was 8.7% in the third quarter compared to 9.3% in the second quarter of 2018. IG Wealth Management mutual fund net redemptions were \$64 million for the current quarter compared to net redemptions of \$110 million in the previous quarter.

OTHER PRODUCTS AND SERVICES

SEGREGATED FUNDS

IG Wealth Management offers segregated funds which include the IG Series of Guaranteed Investment Funds (GIFs). GIFs are segregated fund policies issued by The Great-West Life Assurance Company and include 14 fund-of-fund segregated portfolios and six individual segregated funds. These segregated funds provide for long-term investment growth potential combined with risk management, full and partial maturity and death benefit guarantee features, potential creditor protection and estate planning efficiencies. Select GIF policies allow for a Lifetime Income Benefit (LIB) option to provide guaranteed retirement income for life. The investment components of these segregated funds are managed by IG Wealth Management. At September 30, 2018, total segregated fund assets were \$1.8 billion, unchanged from September 30, 2017.

INSURANCE

IG Wealth Management distributes insurance products through I.G. Insurance Services Inc. The average number of policies sold by each insurance-licensed Consultant was 2.6 for the quarter ended September 30, 2018, compared to 2.5 in 2017. For the nine months ended September 30, 2018, the average number of policies sold by each insurance-licensed Consultant was 7.1 compared to 8.6 in 2017. Distribution of insurance products is enhanced through IG Wealth Management's Insurance Planning Specialists, located throughout Canada, who assist Consultants with advanced estate planning solutions for high net worth clients.

SECURITIES OPERATIONS

Investors Group Securities Inc. is an investment dealer registered in all Canadian provinces and territories providing clients with securities services to complement their financial and investment planning. IG Wealth Management Consultants can refer clients to one of our Wealth Planning Specialists available through Investors Group Securities Inc. In addition, there are a growing number of IIROC licensed Consultants using this platform.

MORTGAGE AND BANKING OPERATIONS

IG Wealth Management Mortgage Planning Specialists are located throughout each province in Canada, and work with our clients and their Consultants to develop mortgage and other lending strategies that meet the individual needs and goals of each client as part of their comprehensive financial plan.

Mortgages are offered to clients by IG Wealth Management, a national mortgage lender, and through IG Wealth Management's Solutions Banking[†], provided by National Bank of Canada under a long-term distribution agreement. An All-in-One product, a comprehensive cash management solution that integrates the features of a mortgage, term loan, revolving line of credit and deposit account, is also offered through IG Wealth Management Solutions Banking.

Mortgage fundings for the three and nine months ended September 30, 2018 were \$429 million and \$1.0 billion, compared to \$453 million and \$1.2 billion in 2017, a decrease of 5.3% and 12.4%, respectively. At September 30, 2018, mortgages totalled \$10.7 billion, compared to \$10.8 billion at September 30, 2017, a decrease of 0.9%.

Available credit associated with Solutions Banking[†] All-in-One accounts originated for the three and nine month periods ended September 30, 2018 were \$261 million and \$744 million, respectively, compared to \$348 million and \$781 million in 2017. At September 30, 2018, the balance outstanding of Solutions Banking[†] All-in-One products was \$2.5 billion, compared to \$2.0 billion one year ago, and represented approximately 50% of total available credit associated with these accounts.

Other products and services offered through IG Wealth Management's Solutions Banking[†] include investment loans, lines of credit, personal loans, creditor insurance, deposit accounts, and credit cards. Through Solutions Banking[†], clients have access to a network of banking machines, as well as a private labeled client website and client service centre. The Solutions Banking[†] offering supports IG Wealth Management's approach to delivering total financial solutions for our clients through a broad financial planning platform. Total lending products of IG Wealth

Management clients in the Solutions Banking[†] offering totalled \$4.1 billion at September 30, 2018, compared to \$3.5 billion at September 30, 2017.

REVIEW OF SEGMENT OPERATING RESULTS

IG Wealth Management's earnings before interest and taxes are presented in Table 10.

2018 VS. 2017

FEE INCOME

Fee income is generated from the management, administration and distribution of IG Wealth Management mutual funds. The distribution of insurance and Solutions Banking[†] products and the provision of securities services provide additional fee income.

IG Wealth Management earns management fees for investment management services provided to its mutual funds, which depend largely on the level and composition of mutual fund assets under management. Management fees were \$374.8 million in the third quarter of 2018, an increase of \$22.3 million or 6.3% from \$352.5 million in 2017. For the nine months ended September 30, 2018, management fees were \$1,101.4 million, an increase of \$53.2 million or 5.1% from \$1,048.2 million in 2017.

The net increase in management fees in the three and nine month periods of 2018 was primarily due to the increase in average assets under management of 6.7% and 5.4%, respectively, as shown in Table 9. The average management fee rate for the three months ended September 30, 2018 was 166.2 basis points of average assets under management compared to 166.5 basis points in 2017. For the nine months ended September 30, 2018, the average management fee rate was 166.5 basis points of average assets under management compared to 166.8 basis points in 2017.

IG Wealth Management receives administration fees for providing administrative services to its mutual funds and trusteeship services to its unit trust mutual funds, which also depend largely on the level and composition of mutual fund assets under management. Administration fees totalled \$79.6 million in the current quarter compared to \$79.9 million a year ago, a decrease of 0.4%. Administration fees were \$235.2 million for the nine month period ended September 30, 2018 compared to \$241.1 million in 2017, a decrease of 2.4%.

ADDITIONAL PRODUCTS AND SERVICES

IG Wealth Management also provides its clients with guaranteed investment certificates offered by Investors Group Trust Co. Ltd., as well as a number of other financial institutions.

These decreases resulted primarily from the movement of assets into unbundled products which are not charged certain administration fees and changes in the composition of average assets under management.

Distribution fees are earned from:

- Redemption fees on mutual funds that were sold with a deferred sales charge.
- Portfolio fund distribution fees.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking[†].

Distribution fee income of \$42.6 million for the third quarter of 2018 increased by \$1.1 million from \$41.5 million in 2017. For the nine month period, distribution fee income of \$126.4 million decreased by \$18.7 million from \$145.1 million in 2017. The decrease in the nine month period was primarily due to a decrease in distribution fee income from insurance products. Insurance revenue in 2017 was higher as a result of sales in advance of changes to the way permanent insurance was taxed. Redemption fees were also lower in the three and nine months ended September 30, 2018. Effective January 1, 2017, IG Wealth Management discontinued the deferred sales purchase option for its mutual funds. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

NET INVESTMENT INCOME AND OTHER

Net investment income and other includes income related to mortgage banking operations and net interest income related to intermediary operations.

As of January 1, 2018, the Company has adopted IFRS 9 which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The adoption of IFRS 9 has resulted in several changes to how the Company accounts for its mortgage banking operations:

TABLE 10: OPERATING RESULTS – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2018 SEP. 30	2018 JUN. 30	2017 SEP. 30	% CHANGE	
				2018 JUN. 30	2017 SEP. 30
Revenues					
Management fees	\$ 374.8	\$ 365.8	\$ 352.5	2.5 %	6.3 %
Administration fees	79.6	77.5	79.9	2.7	(0.4)
Distribution fees	42.6	40.5	41.5	5.2	2.7
	497.0	483.8	473.9	2.7	4.9
Net investment income and other	13.3	12.1	5.3	9.9	150.9
	510.3	495.9	479.2	2.9	6.5
Expenses					
Commission					
Commission amortization	3.8	3.4	44.8	11.8	(91.5)
Mutual fund sales commissions expensed as incurred	20.8	24.5	–	(15.1)	N/M
Other commissions	29.1	28.4	28.4	2.5	2.5
	53.7	56.3	73.2	(4.6)	(26.6)
Asset-based compensation	97.0	95.3	83.0	1.8	16.9
Non-commission	146.1	146.9	142.1	(0.5)	2.8
	296.8	298.5	298.3	(0.6)	(0.5)
Earnings before interest and taxes	\$ 213.5	\$ 197.4	\$ 180.9	8.2 %	18.0 %
NINE MONTHS ENDED (\$ millions)					
			2018 SEP. 30	2017 SEP. 30	% CHANGE
Revenues					
Management fees			\$ 1,101.4	\$ 1,048.2	5.1 %
Administration fees			235.2	241.1	(2.4)
Distribution fees			126.4	145.1	(12.9)
			1,463.0	1,434.4	2.0
Net investment income and other			35.7	45.4	(21.4)
			1,498.7	1,479.8	1.3
Expenses					
Commission					
Commission amortization			10.1	134.7	(92.5)
Mutual fund sales commissions expensed as incurred			81.2	–	N/M
Other commissions			87.9	108.3	(18.8)
			179.2	243.0	(26.3)
Asset-based compensation			287.9	245.7	17.2
Non-commission			437.7	437.5	–
			904.8	926.2	(2.3)
Earnings before interest and taxes			\$ 593.9	\$ 553.6	7.3 %

- Loans of \$282.6 million previously classified as held for trading were reclassified to amortized cost. This resulted in a total remeasurement of \$49.7 million due to the reversal of unrealized losses included in the carrying value of the loans and the capitalization of previously expensed mortgage issue costs. This remeasurement amount of \$49.7 million will reduce mortgage banking income over the life of the related loans.
- The Company has adopted the hedge accounting requirements of IFRS 9 as outlined in Note 2 to the Interim Financial Statements.

Table 25 details the impact of IFRS 9 on the Consolidated Balance Sheet as at January 1, 2018.

Net investment income and other was \$13.3 million in the third quarter of 2018, an increase of \$8.0 million from \$5.3 million in 2017. For the nine months ended September 30, 2018, net investment income and other totalled \$35.7 million, a decrease of \$9.7 million from \$45.4 million in 2017.

Net investment income related to IG Wealth Management's mortgage banking operations totalled \$11.3 million for the third quarter of 2018 compared to \$4.2 million in 2017, an increase of \$7.1 million. For the nine months ended September 30, 2018, net investment income related to IG Wealth Management's mortgage banking operations totalled \$30.9 million compared to \$42.3 million in 2017, a decrease of \$11.4 million. A summary of mortgage banking operations for the three and nine month periods under review is presented in Table 11. The changes in mortgage banking income were due to:

- Net interest income on securitized loans – decreased by \$6.5 million and \$18.7 million for the three and nine month periods ended September 30, 2018 to \$9.7 million and \$29.7 million, respectively, compared to 2017. The decrease resulted from lower margins on securitized loans, primarily due to the adoption of IFRS 9 where issue costs for securitized loans previously expensed as incurred are now capitalized and amortized over the life of the related loans using the effective interest rate method, as well as the elimination of accretion of discounts related to fair value losses recognized on loans held prior to securitization. Issue costs in the comparative periods of \$3.6 million and \$10.0 million for the three and nine months ended September 30, 2017, prior to the adoption of IFRS 9, were expensed and classified in other as part of Net investment income and other.
- Gains realized on the sale of residential mortgages – decreased by \$0.9 million and \$6.0 million for the three and nine month periods ended September 30, 2018 compared to 2017. The decreases in gains resulted from lower sales activity.
- Fair value adjustments – increased by \$11.0 million and \$4.2 million for the three and nine month periods ended

September 30, 2018 to (\$1.7) million and (\$7.5) million, respectively, compared to 2017. The increases in both periods were primarily due to negative fair value adjustments in 2017 on loans held temporarily pending sale or securitization to third parties, as a result of interest rate increases in the period.

- Other – increased by \$3.5 million and \$9.1 million for the three and nine month periods ended September 30, 2018 to \$3.3 million and \$7.2 million compared to 2017 primarily due to the adoption of IFRS 9 where issue costs for securitized loans previously expensed as incurred are amortized over the life of the related loans, and are re-classified to be recorded within net interest income.

EXPENSES

IG Wealth Management incurs commission expense in connection with the distribution of its mutual funds and other financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. Prior to January 1, 2018, commissions paid on the sale of mutual funds were capitalized and amortized over a maximum period of seven years. As of January 1, 2018, as a result of the adoption of IFRS 15 (Note 2 to the Interim Financial Statements) commissions paid on the sale of investment products are capitalized and amortized over their estimated useful lives where the Company receives a fee directly from the client. All other commissions paid on investment product sales are expensed as incurred.

Commission expense was \$53.7 million for the third quarter of 2018, a decrease of \$19.5 million from \$73.2 million in 2017. For the nine month period, commission expense decreased by \$63.8 million to \$179.2 million compared with \$243.0 million in 2017. When adjusted for the impact of IFRS 15, prior period expenses would have been \$77.7 million for the quarter and \$259.5 million for the nine month period, representing a decrease in 2018 of \$24.0 million and \$80.3 million, respectively. These decreases in mutual fund commissions are due to lower mutual fund sales in each period and compensation changes that were effective January 1, 2018, resulting in a decrease in commission-based compensation and an increase in asset-based compensation. In addition, the decrease in other commissions resulted in part from compensation related to the distribution of insurance products.

Asset-based compensation, which is based on the value of assets under management, increased by \$14.0 million and \$42.2 million for the three and nine month periods ended September 30, 2018 to \$97.0 million and \$287.9 million, compared to 2017. The increase was primarily due to the increase in assets under management and compensation changes. Effective January 1, 2018, IG's compensation structure was changed to increase the rates on asset-based compensation while reducing the rates on sales-based compensation.

TABLE 11: MORTGAGE BANKING OPERATIONS – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2018		2017	% CHANGE	
	SEP. 30	JUN. 30	SEP. 30	2018 JUN. 30	2017 SEP. 30
Total mortgage banking income					
Net interest income on securitized loans					
Interest income	\$ 51.1	\$ 50.9	\$ 49.5	0.4 %	3.2 %
Interest expense	41.4	41.3	33.3	0.2	24.3
Net interest income ⁽¹⁾	9.7	9.6	16.2	1.0	(40.1)
Gains on sales ⁽²⁾	–	0.7	0.9	(100.0)	(100.0)
Fair value adjustments	(1.7)	(1.9)	(12.7)	10.5	86.6
Other	3.3	2.3	(0.2)	43.5	N/M
	\$ 11.3	\$ 10.7	\$ 4.2	5.6 %	169.0 %
Average mortgages serviced					
Securitized	\$ 7,273	\$ 7,487	\$ 7,120	(2.9) %	2.1 %
Other	3,202	3,153	3,791	1.6	(15.5)
	\$ 10,475	\$ 10,640	\$ 10,911	(1.6) %	(4.0) %
Mortgage sales to:⁽³⁾					
Securitized	\$ 547	\$ 364	\$ 854	50.3 %	(35.9) %
Other ⁽²⁾	75	105	240	(28.6)	(68.8)
	\$ 622	\$ 469	\$ 1,094	32.6 %	(43.1) %
NINE MONTHS ENDED					
(\$ millions)	2018		2017	% CHANGE	
	SEP. 30	SEP. 30	SEP. 30		
Total mortgage banking income					
Net interest income on securitized loans					
Interest income			\$ 152.3	\$ 148.4	2.6 %
Interest expense			122.6	100.0	22.6
Net interest income ⁽¹⁾			29.7	48.4	(38.6)
Gains on sales ⁽²⁾			1.5	7.5	(80.0)
Fair value adjustments			(7.5)	(11.7)	35.9
Other			7.2	(1.9)	N/M
			\$ 30.9	\$ 42.3	(27.0) %
Average mortgages serviced					
Securitized			\$ 7,430	\$ 7,362	0.9 %
Other			3,197	3,655	(12.5)
			\$ 10,627	\$ 11,017	(3.5) %
Mortgage sales to:⁽³⁾					
Securitized			\$ 1,292	\$ 1,493	(13.5) %
Other ⁽²⁾			276	832	(66.8)
			\$ 1,568	\$ 2,325	(32.6) %

(1) Issuance costs in the comparative periods were expensed as incurred and recorded in Other within Total mortgage banking income (first quarter – \$2.9 million; second quarter – \$3.5 million; third quarter – \$3.6 million.)

(2) Represents sales to institutional investors through private placements, to Investors Mortgage and Short Term Income Fund, and to Investors Canadian Corporate Bond Fund as well as gains realized on those sales.

(3) Represents principal amounts sold.

Non-commission expenses incurred by IG Wealth Management primarily relate to the support of the Consultant network, the administration, marketing and management of its mutual funds and other products, as well as sub-advisory fees related to mutual fund assets under management. Non-commission expenses were \$146.1 million for the third quarter of 2018 compared to \$142.1 million in 2017, an increase of \$4.0 million or 2.8%. For the nine month period, non-commission expenses were \$437.7 million in 2018 compared to \$437.5 million in 2017.

Q3 2018 VS. Q2 2018

FEE INCOME

Management fee income increased by \$9.0 million or 2.5% to \$374.8 million in the third quarter of 2018 compared with the second quarter of 2018. The increase in management fees in the third quarter was primarily due to an increase of approximately \$3.4 million resulting from one additional calendar day in the second quarter compared to the prior quarter, as well as by the increase in average assets under management of 1.6% for the quarter, as shown in Table 9.

Administration fees increased to \$79.6 million in the third quarter of 2018 from \$77.5 million in the second quarter of 2018.

Distribution fee income of \$42.6 million in the third quarter of 2018 increased by \$2.1 million from \$40.5 million in the second

quarter primarily due to an increase in distribution fee income from insurance product sales, as well as lower redemption fees.

NET INVESTMENT INCOME AND OTHER

Net investment income and other was \$13.3 million in the third quarter of 2018 compared to \$12.1 million in the previous quarter, an increase of \$1.2 million related to IG Wealth Management's mortgage banking operations.

Net investment income related to IG Wealth Management's mortgage banking operations totalled \$11.3 million in the third quarter of 2018, an increase of \$0.6 million from \$10.7 million in the previous quarter as shown in Table 11.

EXPENSES

Commission expense in the current quarter was \$53.7 million compared with \$56.3 million in the previous quarter. The decrease related primarily to lower cash commissions paid being expensed in the quarter primarily due to seasonally lower mutual fund sales, combined with the uncertainty caused by market volatility which resulted in lower sales in the third quarter. Asset-based compensation increased by \$1.7 million to \$97.0 million in the third quarter of 2018.

Non-commission expenses were \$146.1 million in the current quarter compared to \$146.9 million in the prior quarter.

MACKENZIE INVESTMENTS

REVIEW OF THE BUSINESS

MACKENZIE STRATEGY

Mackenzie seeks to be Canada's preferred global asset management solutions provider and business partner.

Mackenzie's vision: We are committed to the financial success of investors, through *their* eyes. This impacts the strategic priorities we select to fulfil that commitment and drive future business growth. Our strategic mandate is two-fold: win in the Canadian retail space and build meaningful strategic relationships. We aim to achieve this mandate by attracting and fostering the best minds in the investment industry, responding to changing needs of financial advisors and investors with distinctive and innovative solutions, and continuing to deliver institutional quality in everything we do.

Supporting this vision and strategic mandate are six key foundational capabilities that our employees strive to achieve:

- Delivering competitive and consistent risk-adjusted performance
- Offering innovative and high quality investment solutions
- Accelerating distribution
- Advancing brand leadership
- Driving operational excellence and discipline
- Enabling a high-performing and diverse culture

Mackenzie seeks to maximize returns on business investment by focusing resources in areas that directly impact the success of our strategic mandate: investment management, distribution and client experience.

Founded in 1967, Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our business focuses on multiple distribution channels: Retail, Strategic Alliances and Institutional.

Mackenzie primarily distributes its retail investment products through third party financial advisors. Mackenzie's sales teams work with many of the more than 30,000 independent financial advisors and their firms across Canada. In addition to its retail distribution team, Mackenzie also has specialty teams focused on strategic alliances and the institutional marketplace. Within the strategic alliance channel, Mackenzie offers certain series of its mutual funds and provides sub-advisory services to third party and related party investment programs offered by banks, insurance companies and other investment companies. Strategic alliances with related parties include providing advisory services to IG Wealth Management, Investment Planning Counsel and Great-West Lifeco Inc. (Lifeco) subsidiaries, and also include a private label mutual fund arrangement with Lifeco subsidiary Quadrus. Within the strategic alliance channel, Mackenzie's primary distribution relationship is with the head office of the respective bank, insurance company or investment company.

In the institutional channel, Mackenzie provides investment management services to pension plans, foundations and other institutions. Mackenzie attracts new institutional business through its relationships with pension and management consultants.

Gross sales and redemption activity in strategic alliance and institutional accounts can be more pronounced than in the retail channel given the relative size and the nature of the distribution relationships of these accounts. These accounts are also subject to ongoing reviews and rebalance activities which may result in a significant change in the level of assets under management.

Mackenzie is positioned to continue to build and enhance its distribution relationships given its team of experienced investment professionals, strength of its distribution network, broad product shelf, competitively priced products and its focus on client experience and investment excellence.

SPONSORSHIP INITIATIVES

During the third quarter of 2018, Mackenzie renewed its long-term sponsorships with Alpine Canada and Freestyle Canada, two premier national snow sports organizations. Mackenzie also renewed its sponsorships with four time Olympic downhill racer Manny Osborne-Paradis and started a new sponsorship with Olympic silver medalist ski cross racer Brittany Phelan. The sponsorships continue a long legacy of Mackenzie supporting Canada's ski programs, both at the national and provincial level, including numerous amateur races, events and on-hill activations.

ASSETS UNDER MANAGEMENT

The changes in investment fund assets under management are summarized in Table 12 and the changes in total assets under management are summarized in Table 13.

In October 2017, the investment management functions of IG Wealth Management and Mackenzie consolidated to form a single global investment management organization under Mackenzie to support both companies. Effective October 1, 2017, Mackenzie's segment excludes investment advisory mandates to IG Wealth Management funds and investments into Mackenzie mutual funds by IG Wealth Management mutual funds. These mandates are no longer reflected within Mackenzie's segment assets under management and net sales. To ensure comparability of results, prior period assets under management and net sales have been adjusted to remove these mandates.

At September 30, 2018, Mackenzie's investment fund assets under management were \$59.5 billion, an all-time quarter end high, and total assets under management were \$67.3 billion. The change in Mackenzie's assets under management is determined by investment returns generated for our clients and net contributions from our clients.

TABLE 12: CHANGE IN INVESTMENT FUND ASSETS UNDER MANAGEMENT – MACKENZIE⁽¹⁾

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2018 SEP. 30	2018 JUN. 30	2017 SEP. 30	2018 JUN. 30	2017 SEP. 30
Sales	\$ 2,252	\$ 2,741	\$ 1,834	(17.8) %	22.8 %
Redemptions	2,309	2,711	1,529	(14.8)	51.0
Mutual fund net sales (redemptions) ⁽²⁾	(57)	30	305	N/M	N/M
ETF net creations	377	570	286	(33.9)	31.8
Mutual fund investment in ETF	(62)	(153)	(52)	(59.5)	19.2
Investment fund net sales (redemptions)⁽³⁾	258	447	539	(42.3)	(52.1)
Investment returns	543	1,251	(179)	(56.6)	N/M
Net change in assets	801	1,698	360	(52.8)	122.5
Beginning assets	58,692	56,994	53,856	3.0	9.0
Ending assets	\$ 59,493	\$ 58,692	\$ 54,216	1.4 %	9.7 %
Consists of:					
Mutual funds	\$ 57,343	\$ 56,842	\$ 53,643	0.9 %	6.9 %
ETFs	2,963	2,600	906	14.0	N/M
Mutual fund investment in ETF	(813)	(750)	(333)	8.4	144.1
Investment funds ⁽³⁾	\$ 59,493	\$ 58,692	\$ 54,216	1.4 %	9.7 %
Daily average investment fund assets	\$ 59,534	\$ 57,913	\$ 53,423	2.8 %	11.4 %
NINE MONTHS ENDED (\$ millions)				% CHANGE	
	2018 SEP. 30	2017 SEP. 30			
Sales	\$ 7,623	\$ 6,890			10.6 %
Redemptions	7,364	6,062			21.5
Mutual fund net sales (redemptions) ⁽²⁾	259	828			(68.7)
ETF net creations	1,662	789			110.6
Mutual fund investment in ETF	(448)	(314)			42.7
Investment fund net sales (redemptions)⁽³⁾	1,473	1,303			13.0
Investment returns	1,477	1,488			(0.7)
Net change in assets	2,950	2,791			5.7
Beginning assets	56,543	51,425			10.0
Ending assets	\$ 59,493	\$ 54,216			9.7 %
Daily average investment fund assets	\$ 58,181	\$ 53,288			9.2 %

(1) Effective October 1, 2017, Mackenzie segment has been redefined to exclude investments into Mackenzie mutual funds by IG Wealth Management mutual funds from its assets under management and net sales. This change has been applied retroactively to provide comparability of results.

(2) During 2018 and 2017, institutional clients, which include Mackenzie mutual funds within their investment offerings, made fund allocation changes:

- Third quarter of 2018 - resulted in sales of \$28 million, redemptions of \$293 million and net redemptions of \$265 million.
- Second quarter of 2018 - resulted in sales of \$381 million, redemptions of \$514 million and net redemptions of \$133 million.
- During 2018 - resulted in sales of \$409 million, redemptions of \$807 million and net redemptions of \$398 million.
- During 2017 - resulted in sales of \$313 million, redemptions of \$618 million and net redemptions of \$305 million.

(3) Total investment fund net sales and assets under management exclude Mackenzie mutual fund investments in ETFs.

TABLE 13: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – MACKENZIE⁽¹⁾

THREE MONTHS ENDED (\$ millions)	2018		2017		% CHANGE	
	SEP. 30	JUN. 30	SEP. 30	JUN. 30	2018 JUN. 30	2017 SEP. 30
Net sales (redemptions)						
Mutual funds ⁽²⁾	\$ (57)	\$ 30	\$ 305		N/M %	N/M %
ETF net creations	377	570	286		(33.9)	31.8
Mutual fund investment in ETF	(62)	(153)	(52)		(59.5)	19.2
Investment funds ⁽³⁾	258	447	539		(42.3)	(52.1)
Sub-advisory, institutional and other accounts	(395)	(97)	73		N/M	N/M
Total net sales (redemptions)	(137)	350	612		N/M	N/M
Investment returns	531	1,442	(136)		(63.2)	N/M
Net change in assets	394	1,792	476		(78.0)	(17.2)
Beginning assets	66,953	65,161	60,364		2.8	10.9
Ending assets	\$ 67,347	\$ 66,953	\$ 60,840		0.6 %	10.7 %
Consists of:						
Mutual funds	\$ 57,343	\$ 56,842	\$ 53,643		0.9 %	6.9 %
ETFs	2,963	2,600	906		14.0	N/M
Mutual fund investment in ETF	(813)	(750)	(333)		8.4	144.1
Investment funds ⁽³⁾	59,493	58,692	54,216		1.4	9.7
Sub-advisory, institutional and other accounts	7,854	8,261	6,624		(4.9)	18.6
Total assets under management	\$ 67,347	\$ 66,953	\$ 60,840		0.6 %	10.7 %
Average total assets⁽⁴⁾	\$ 67,561	\$ 66,116	\$ 60,012		2.2 %	12.6 %
NINE MONTHS ENDED (\$ millions)	2018		2017		% CHANGE	
			SEP. 30	SEP. 30		
Net sales (redemptions)						
Mutual funds ⁽²⁾			\$ 259	\$ 828		(68.7) %
ETF net creations			1,662	789		110.6
Mutual fund investment in ETF			(448)	(314)		42.7
Investment funds ⁽³⁾			1,473	1,303		13.0
Sub-advisory, institutional and other accounts			(263)	108		N/M
Total net sales (redemptions)			1,210	1,411		(14.2)
Investment returns			1,628	1,772		(8.1)
Net change in assets			2,838	3,183		(10.8)
Beginning assets			64,509	57,657		11.9
Ending assets			\$ 67,347	\$ 60,840		10.7 %
Average total assets⁽⁴⁾			\$ 66,296	\$ 59,787		10.9 %

(1) Effective October 1, 2017, Mackenzie segment has been redefined to exclude advisory mandates to IG Wealth Management and investments into Mackenzie mutual funds by IG Wealth Management mutual funds from its assets under management and net sales. These changes have been applied retroactively to provide comparability of results.

(2) During 2018 and 2017, institutional clients which include Mackenzie mutual funds within their investment offerings, made fund allocation changes:

- Third quarter of 2018 - resulted in sales of \$28 million, redemptions of \$293 million and net redemptions of \$265 million.
- Second quarter of 2018 - resulted in sales of \$381 million, redemptions of \$514 million and net redemptions of \$133 million.
- During 2018 - resulted in sales of \$409 million, redemptions of \$807 million and net redemptions of \$398 million.
- During 2017 - resulted in sales of \$313 million, redemptions of \$618 million and net redemptions of \$305 million.

(3) Total investment fund net sales and assets under management exclude Mackenzie mutual fund investments in ETFs.

(4) Based on daily average investment fund assets and month-end average sub-advisory, institutional and other assets.

FUND PERFORMANCE

Long-term investment performance is a key measure of Mackenzie's ongoing success. At September 30, 2018, 49.0% of Mackenzie mutual fund assets were rated in the top two performance quartiles for the one year time frame, 51.0% for the three year time frame and 49.4% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar[†] fund ranking service. At September 30, 2018, 72.0% of Mackenzie mutual fund assets measured by Morningstar[†] had a rating of three stars or better and 38.4% had a rating of four or five stars. This compared to the Morningstar[†] universe of 76.6% for three stars or better and 41.7% for four and five star funds at September 30, 2018. These ratings exclude the Quadrus Group of Funds[†].

CHANGES TO PRODUCT OFFERINGS

Mackenzie continues to evolve its product shelf by providing enhanced investment solutions for financial advisors to offer their clients. In 2018, Mackenzie launched a number of new products, implemented a new simplified and more accessible pricing structure, and merged mutual funds to streamline and strengthen its product shelf.

Exchange Traded Funds

The addition of Exchange Traded Funds (ETF) has complemented Mackenzie's broad and innovative fund line-up and reflects its investor-focused vision to provide advisors and investors with new solutions to drive investor outcomes and achieve their personal goals. These ETFs offer investors another investment option to utilize in building long-term diversified portfolios. Mackenzie's current line-up consists of twenty-eight ETFs: fifteen active and strategic beta ETFs launched during 2016 and 2017 and an additional thirteen traditional index ETFs launched in the first quarter of 2018. Since the launch in April 2016, Mackenzie's ETF assets under management have grown to \$3.0 billion at the end of September 30, 2018, inclusive of \$813 million in investments from Mackenzie mutual funds. This ranks Mackenzie in eighth place in the Canadian ETF industry for assets under management. Mackenzie also ranks in third place in industry net creations for the nine months ended September 30, 2018 with net creations of \$1.7 billion, inclusive of \$0.4 billion in investments from Mackenzie mutual funds.

Mutual Funds

On October 17, 2018 Mackenzie launched the Mackenzie Global Environmental Equity Fund to better support its investors and advisors seeking investment solutions with sustainability themes. This fund will be sub-advised by Greenchip Financial and will exclusively invest in companies who supply products and services needed in both the global energy transition from

fossil fuels to renewables and from inefficient-to-efficient use of resources. These long-term trends have created a breadth of investment opportunity in industries such as energy infrastructure and storage, clean technology, sustainable agriculture and transportation. This fund joins Mackenzie's other socially responsible product offerings launched during the fourth quarter of 2017, the Mackenzie Global Sustainability and Impact Balanced Fund and the Global Leadership Impact Fund. All of these socially responsible funds seek to generate strong returns while offering investors the opportunity to affect change.

Simplified Pricing & Fee Reductions

Mackenzie strengthened its pricing commitment for investors by further enhancing and simplifying its pricing structure and announcing additional fee reductions. Mackenzie is focused on delivering clear, consistent and competitive pricing.

- On June 1, 2018, Mackenzie implemented the lower and simplified pricing structure, which included some fee reductions.
- In October 2018, Mackenzie reduced management fees by 5 bps on six fixed income mutual funds to enhance competitiveness, and reduced management fees on fourteen ETFs to enhance competitiveness and better align ETF pricing with the retail pricing mutual fund changes announced earlier in the year.

CHANGE IN ASSETS UNDER MANAGEMENT – 2018 VS. 2017

Mackenzie's total assets under management at September 30, 2018 were \$67.3 billion, an increase of 10.7% from \$60.8 billion at September 30, 2017. Mackenzie's sub-advisory, institutional and other accounts at September 30, 2018 were \$7.9 billion, an increase of 18.6% from \$6.6 billion last year.

Mackenzie's investment fund assets under management were \$59.5 billion at September 30, 2018, an increase of 9.7% from September 30, 2017. Mackenzie's mutual fund assets under management were \$57.3 billion at September 30, 2018, an increase of 6.9% from \$53.6 billion at September 30, 2017. Mackenzie's ETF assets were \$3.0 billion at September 30, 2018, inclusive of \$813 million in investments from Mackenzie mutual funds, compared to \$906 million at September 30, 2017, inclusive of \$333 million in investments from Mackenzie mutual funds.

In the three months ended September 30, 2018, Mackenzie's mutual fund gross sales were \$2.3 billion, an increase of 22.8% from \$1.8 billion in the comparative period last year. Mutual fund redemptions in the current quarter were \$2.3 billion, an increase of 51.0% from last year. Mutual fund net redemptions for the three months ended September 30, 2018 were \$57 million, as compared to net sales of \$305 million last year. In the three months ended September 30, 2018, ETF net creations were

\$377 million, inclusive of \$62 million in investments from Mackenzie mutual funds compared to ETF net creations of \$286 million last year, inclusive of \$52 million in investments from Mackenzie mutual funds. Investment fund net sales in the current quarter were \$258 million compared to net sales of \$539 million last year. During the current quarter, investment returns resulted in investment fund assets increasing by \$543 million as compared to a decrease of \$179 million last year.

During the three months ended September 30, 2018, an institutional client, which includes Mackenzie mutual funds within its investment offerings, made fund allocation changes resulting in gross sales of \$28 million, redemptions of \$293 million and net redemptions of \$265 million. Excluding these transactions, mutual fund gross sales increased 21.3% and mutual fund redemptions increased 31.9% in the three months ended September 30, 2018 compared to last year and mutual fund net sales were \$208 million compared to mutual fund net sales of \$305 million last year.

Total net redemptions for the three months ended September 30, 2018 were \$137 million, compared to net sales of \$612 million last year. During the current quarter, investment returns resulted in assets increasing by \$531 million compared to a decrease of \$136 million last year. Excluding the mutual fund allocation changes made by an institutional client during the third quarter of 2018 discussed previously, total net sales were \$128 million in the current quarter compared to net sales of \$612 million last year.

In the nine months ended September 30, 2018, Mackenzie's mutual fund gross sales were \$7.6 billion, an increase of 10.6% from \$6.9 billion in the comparative period last year. Mutual fund redemptions in the current period were \$7.4 billion, an increase of 21.5% from last year. Mutual fund net sales for the nine months ended September 30, 2018 were \$259 million, as compared to net sales of \$828 million last year. In the nine months ended September 30, 2018, ETF net creations were \$1.7 billion, inclusive of \$448 million in investments from Mackenzie mutual funds, compared to ETF net creations of \$789 million, inclusive of \$314 million in investments from Mackenzie mutual funds last year. Investment fund net sales in the current period were \$1.5 billion compared to \$1.3 billion last year. During the current period, investment returns resulted in investment fund assets increasing by \$1.5 billion, consistent with last year.

During the nine months ended September 30, 2018, institutional clients, which include Mackenzie mutual funds within their investment offerings, made fund allocation changes resulting in gross sales of \$409 million, redemptions of \$807 million and net redemptions of \$398 million. During the nine months ended September 30, 2017, certain institutional clients, which include

Mackenzie mutual funds within their investment offerings, made fund allocation changes resulting in gross sales of \$313 million, redemptions of \$618 million and net redemptions of \$305 million. Excluding these transactions, mutual fund gross sales increased 9.7% and mutual fund redemptions increased 20.5% in the nine months ended September 30, 2018 compared to last year and mutual fund net sales were \$657 million compared to \$1.1 billion last year.

Redemptions of long-term mutual funds in the three and nine months ended September 30, 2018, were \$2.2 billion and \$7.1 billion, respectively, as compared to \$1.5 billion and \$5.8 billion last year. Redemptions of long-term mutual funds excluding mutual fund allocation changes made by institutional clients were \$6.3 billion in the nine months ended September 30, 2018, compared to \$5.2 billion last year. Mackenzie's annualized quarterly redemption rate for long-term mutual funds was 15.6% in the third quarter of 2018, compared to 11.0% in the third quarter of 2017. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions was 13.6% in the third quarter of 2018. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 16.4% at September 30, 2018, as compared to 15.0% last year. Mackenzie's twelve-month trailing redemption rate for long-term funds, excluding rebalance transactions, was 15.0% at September 30, 2018 and 13.8% at September 30, 2017. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 16.7% at September 30, 2018. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

Total net sales for the nine months ended September 30, 2018 were \$1.2 billion, as compared to net sales of \$1.4 billion last year. During the nine months ended September 30, 2018, investment returns resulted in assets increasing by \$1.6 billion, compared to an increase of \$1.8 billion last year. Excluding the mutual fund allocation changes in both 2018 and 2017 previously discussed, total net sales were \$1.6 billion in the current period compared to net sales of \$1.7 billion last year.

CHANGE IN ASSETS UNDER MANAGEMENT – Q3 2018 VS. Q2 2018

Mackenzie's total assets under management at September 30, 2018, were \$67.3 billion, an increase of 0.6% from \$67.0 billion at June 30, 2018. Mackenzie's sub-advisory, institutional and

other accounts at September 30, 2018 were \$7.9 billion, a decrease of 4.9% from \$8.3 billion at June 30, 2018.

Mackenzie's investment fund assets under management were \$59.5 billion at September 30, 2018, an increase of 1.4% from \$58.7 billion at June 30, 2018. Mackenzie's mutual fund assets under management were \$57.3 billion at September 30, 2018, an increase of 0.9% from \$56.8 billion at June 30, 2018. Mackenzie's ETF assets were \$3.0 billion at September 30, 2018, an increase of 14.0% from \$2.6 billion at June 30, 2018. ETF assets include investments from Mackenzie mutual funds of \$813 million at September 30, 2018 and \$750 million at June 30, 2018.

For the quarter ended September 30, 2018, Mackenzie mutual fund gross sales were \$2.3 billion, a decrease of 17.8% from the second quarter of 2018. Mutual fund redemptions, which totalled \$2.3 billion for the third quarter, decreased by 14.8% from the previous quarter. Net redemptions of Mackenzie mutual funds for the current quarter were \$57 million compared with net sales of \$30 million in the previous quarter. Excluding the mutual fund allocation changes during the current quarter and the second quarter of 2018 previously discussed, mutual fund gross sales declined 5.8%, mutual fund redemptions declined 8.2% and net sales in the three months ended September 30, 2018, were \$208 million compared to \$163 million in the second quarter of 2018.

Redemptions of long-term mutual fund assets in the current quarter were \$2.2 billion, compared to \$2.6 billion in the

second quarter of 2018. Redemptions of long-term mutual fund assets, excluding mutual fund allocation changes made by institutional clients were \$1.9 billion in the current quarter, compared to \$2.1 billion in the second quarter. Mackenzie's annualized quarterly redemption rate for long-term mutual funds for the current quarter was 15.6% compared to 18.9% for the second quarter of 2018. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions was 13.6% in the third quarter of 2018 compared to 15.2% in the second quarter. Net redemptions of long-term mutual funds for the current quarter were \$106 million compared to net sales of \$20 million in the previous quarter. Net sales of long-term mutual funds excluding rebalance transactions was \$159 million in the third quarter compared to \$153 million in the second quarter.

For the quarter ended September 30, 2018, Mackenzie ETF net creations were \$377 million, a decrease of \$193 million from the second quarter of 2018. In the current quarter, ETF net creations were inclusive of \$62 million in investments from Mackenzie mutual funds compared to \$153 million in the second quarter.

Investment fund net sales in the current quarter were \$258 million compared to net sales of \$447 million in the second quarter. Investment fund net sales in the current quarter, excluding mutual fund allocation changes made by third party programs previously discussed, were \$523 million, compared to \$580 million in the second quarter.

REVIEW OF SEGMENT OPERATING RESULTS

In October 2017, the investment management functions of IG Wealth Management and Mackenzie consolidated to form a single global investment management organization under Mackenzie to support both companies. As previously discussed, effective October 1, 2017, Mackenzie's segment excludes investment advisory mandates to IG Wealth Management funds and investments into Mackenzie mutual funds by IG Wealth Management mutual funds. Revenue earned on these mandates are no longer reflected within Mackenzie's segment revenues. With these changes, Mackenzie's segment will reflect its proportionate share of the expenses of the investment management function which better aligns with internal management reporting. The impact of these changes in

segment earnings is not significant. Prior period earnings have not been restated.

Mackenzie's earnings before interest and taxes are presented in Table 14.

2018 VS. 2017

REVENUES

The largest component of Mackenzie's revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the

TABLE 14: OPERATING RESULTS – MACKENZIE

THREE MONTHS ENDED (\$ millions)	2018		2017		% CHANGE	
	SEP. 30	JUN. 30	SEP. 30	JUN. 30	2018 JUN. 30	2017 SEP. 30
Revenues						
Management fees	\$ 178.6	\$ 177.0	\$ 175.3	0.9 %	1.9 %	
Administration fees	24.8	24.9	24.5	(0.4)	1.2	
Distribution fees	1.7	1.5	1.7	13.3	–	
	205.1	203.4	201.5	0.8	1.8	
Net investment income and other	(1.1)	2.5	(0.3)	N/M	N/M	
	204.0	205.9	201.2	(0.9)	1.4	
Expenses						
Commission	5.9	7.2	11.3	(18.1)	(47.8)	
Trailing commission	67.3	65.7	62.9	2.4	7.0	
Non-commission	78.1	84.3	81.6	(7.4)	(4.3)	
	151.3	157.2	155.8	(3.8)	(2.9)	
Earnings before interest and taxes	\$ 52.7	\$ 48.7	\$ 45.4	8.2 %	16.1 %	
NINE MONTHS ENDED (\$ millions)						
			2018 SEP. 30	2017 SEP. 30	% CHANGE	
Revenues						
Management fees			\$ 531.5	\$ 524.3	1.4 %	
Administration fees			74.6	73.8	1.1	
Distribution fees			5.3	5.9	(10.2)	
			611.4	604.0	1.2	
Net investment income and other			1.2	(2.1)	N/M	
			612.6	601.9	1.8	
Expenses						
Commission			23.0	35.6	(35.4)	
Trailing commission			198.4	188.7	5.1	
Non-commission			248.2	247.3	0.4	
			469.6	471.6	(0.4)	
Earnings before interest and taxes			\$ 143.0	\$ 130.3	9.7 %	

account type of the underlying assets under management. For example, equity-based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised and institutional accounts. The majority of Mackenzie's mutual fund assets are purchased on a retail basis.

Within Mackenzie's retail mutual fund offering, certain series are offered for fee-based programs of participating dealers whereby dealer compensation on such series is charged directly by the dealer to a client (primarily Series F). As Mackenzie does not pay the dealer compensation, these series have lower management fees. At September 30, 2018, these series had \$8.6 billion in assets, an increase of 35.0% from the prior year.

Management fees were \$178.6 million for the three months ended September 30, 2018, an increase of \$3.3 million or 1.9% from \$175.3 million last year. As discussed earlier, advisory mandates to IG Wealth Management funds and investments into Mackenzie mutual funds by IG Wealth Management mutual funds were excluded from the Mackenzie segment effective October 1, 2017. When adjusted to remove these fees from IG Wealth Management, prior period management fees were \$169.6 million. The net increase in management fees was due to the increase in average assets under management of 12.6% offset by a decline in the average management fee rate. Mackenzie's average management fee rate was 104.9 basis points during the current quarter compared to 112.1 basis points in 2017 when adjusted to exclude these fees from IG Wealth Management funds. The decrease in the average management fee rate in the current quarter was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products and Series F, the impact of the pricing changes implemented on June 1, 2018 which included switching of qualified investors into its Private Wealth Series, and an 18.6% increase in lower margin sub-advisory, institutional and other accounts.

Management fees were \$531.5 million for the nine months ended September 30, 2018, an increase of \$7.2 million or 1.4% from \$524.3 million last year. When adjusted to remove the fees from IG Wealth Management, prior period management fees were \$509.1 million. The net increase in management fees was due to the increase in total average assets under management of 10.9% offset by a decline in the average management fee rate. Mackenzie's average management fee rate in the nine months ended September 30, 2018 was 107.2 basis points compared to 113.8 basis points in 2017. The decrease in average management fee rate was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products and Series F.

Mackenzie earns administration fees primarily from providing services to its investment funds. Administration fees were \$24.8 million for the three months ended September 30, 2018, an increase of \$0.3 million or 1.2% over last year. Administration fees were \$74.6 million for the nine months ended September 30, 2018, an increase of \$0.8 million or 1.1% from \$73.8 million last year.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Redemption fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Redemption fees for low load assets range from 2.0% to 3.0% in the first year and decrease to zero after two or three years, depending on the purchase option. Distribution fee income in the three months ended September 30, 2018 was \$1.7 million, consistent with last year. Distribution fee income in the nine months ended September 30, 2018 was \$5.3 million, a decrease of \$0.6 million from \$5.9 million last year.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was (\$1.1) million for the three months ended September 30, 2018 compared to (\$0.3) million last year. Net investment income and other was \$1.2 million for the nine months ended September 30, 2018, an increase of \$3.3 million from (\$2.1) million last year.

EXPENSES

Mackenzie's expenses were \$151.3 million for the three months ended September 30, 2018, a decrease of \$4.5 million or 2.9% from \$155.8 million in 2017. Expenses for the nine months ended September 30, 2018 were \$469.6 million, a decrease of \$2.0 million or 0.4% from \$471.6 million last year.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. Prior to January 1, 2018, commissions paid on the sale of mutual funds were capitalized and amortized over a maximum period of seven years. As of January 1, 2018, as a result of the adoption of IFRS 15, commissions paid are expensed as incurred.

Commission expense was \$5.9 million in the three months ended September 30, 2018, as compared to \$11.3 million last year. Commission expense in the nine months ended September 30, 2018 was \$23.0 million compared to \$35.6 million in 2017. When adjusted for the impact of IFRS 15, prior year expenses would have been \$7.3 million for the quarter and \$25.2 million for the

nine month period, representing a decrease in 2018 of \$1.4 million in the quarter and \$2.2 million in the nine month period.

Trailing commissions paid to dealers are paid on certain classes of retail mutual funds and are calculated as a percentage of mutual fund assets under management. These fees vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were \$67.3 million in the three months ended September 30, 2018, an increase of \$4.4 million or 7.0% from \$62.9 million last year. Trailing commissions in the nine months ended September 30, 2018 were \$198.4 million, an increase of \$9.7 million or 5.1% from \$188.7 million last year. The increase in trailing commissions in the three and nine months ended September 30, 2018 resulted from the period over period increase in average mutual fund assets offset, in part, by a decline in the effective trailing commission rate. Trailing commissions as a percentage of average mutual fund assets under management were 46.8 basis points in the three and nine months ended September 30, 2018 compared to 47.5 basis points in the three and nine months ended September 30, 2017. The decline was due to a change in composition of mutual fund assets towards series of mutual funds that do not pay trail commissions.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were \$78.1 million in the three months ended September 30, 2018, a decrease of \$3.5 million or 4.3% from \$81.6 million in 2017. Non-commission expenses in the nine months ended September 30, 2018 were \$248.2 million, an increase of \$0.9 million or 0.4% from \$247.3 million in 2017.

Q3 2018 VS. Q2 2018

REVENUES

Mackenzie's revenues were \$204.0 million for the current quarter, a decrease of \$1.9 million or 0.9% from \$205.9 million in the second quarter.

Management fees were \$178.6 million for the current quarter, an increase of \$1.6 million or 0.9% from \$177.0 million in the second quarter. Factors contributing to the net increase in management fees are as follows:

- Average assets under management were \$67.6 billion in the current quarter, a 2.2% increase from \$66.1 billion in the prior quarter.
- Mackenzie's average management fee rate was 104.9 basis points in the current quarter compared to 107.4 basis points in the second quarter.
- There was one more calendar day in the third quarter of 2018 compared to the second quarter of 2018, which resulted in an increase of \$1.9 million.

Administration fees were \$24.8 million in the current quarter, a decrease of 0.4% from \$24.9 million in the second quarter.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. Net investment income and other was (\$1.1) million for the current quarter compared to \$2.5 million in the second quarter.

EXPENSES

Mackenzie's expenses were \$151.3 million for the current quarter, a decrease of \$5.9 million or 3.8% from \$157.2 million in the second quarter.

Commission expense related to selling commissions paid was \$5.9 million in the quarter ended September 30, 2018, as compared to \$7.2 million in the second quarter.

Trailing commissions were \$67.3 million in the current quarter, an increase of \$1.6 million or 2.4% from \$65.7 million in the second quarter. The change in trailing commissions reflects the 2.2% period over period increase in average mutual fund assets under management and an increase in the effective trailing commission rate. The effective trailing commission rate was 46.8 basis points in the current quarter compared to 46.7 basis points in the second quarter.

Non-commission expenses were \$78.1 million in the current quarter, compared to \$84.3 million in the second quarter.

CORPORATE AND OTHER

REVIEW OF SEGMENT OPERATING RESULTS

The Corporate and Other segment includes net investment income not allocated to the IG Wealth Management or Mackenzie segments, the Company's proportionate share of earnings of its associates, Great-West Lifeco Inc. (Lifeco) and China Asset Management Co., Ltd. (China AMC), operating results for Investment Planning Counsel Inc., other income, as well as consolidation elimination entries.

The Company's investment in China AMC closed on August 31, 2017.

The Company also has investments in Personal Capital Corporation, Wealthsimple Financial Corporation and Portag3 Ventures LP.

Corporate and other earnings before interest and taxes are presented in Table 15.

2018 VS. 2017

The proportionate share of associates' earnings increased by \$14.9 million in the third quarter of 2018 and increased by \$37.6 million in the nine months ended September 30, 2018, compared to 2017. These earnings reflect equity earnings from Lifeco for all periods under review and from China AMC beginning in the third quarter of 2017, as discussed in the Consolidated Financial Position section of this MD&A. Net investment income and other increased to \$3.8 million in the third quarter of 2018 compared to \$2.6 million in 2017. For the nine month period, net investment income and other increased to \$11.8 million compared to \$9.5 million in 2017.

Earnings before interest and taxes related to Investment Planning Counsel were \$1.9 million higher in the third quarter of 2018 compared to the same period in 2017 and \$5.0 million higher in the nine months ended September 30, 2018.

TABLE 15: OPERATING RESULTS – CORPORATE AND OTHER

THREE MONTHS ENDED (\$ millions)				% CHANGE	
	2018 SEP. 30	2018 JUN. 30	2017 SEP. 30	2018 JUN. 30	2017 SEP. 30
Revenues					
Fee income	\$ 74.1	\$ 72.6	\$ 65.4	2.1 %	13.3 %
Net investment income and other	3.8	4.0	2.6	(5.0)	46.2
Proportionate share of associates' earnings	39.8	37.6	24.9	5.9	59.8
	117.7	114.2	92.9	3.1	26.7
Expenses					
Commission	46.2	45.6	45.6	1.3	1.3
Non-commission	21.7	21.5	15.1	0.9	43.7
	67.9	67.1	60.7	1.2	11.9
Earnings before interest and taxes	\$ 49.8	\$ 47.1	\$ 32.2	5.7 %	54.7 %
NINE MONTHS ENDED (\$ millions)			% CHANGE		
	2018 SEP. 30	2017 SEP. 30			
Revenues					
Fee income		\$ 219.1	\$ 197.3		11.0 %
Net investment income and other		11.8	9.5		24.2
Proportionate share of associates' earnings		115.4	77.8		48.3
		346.3	284.6		21.7
Expenses					
Commission		137.8	136.7		0.8
Non-commission		65.8	47.4		38.8
		203.6	184.1		10.6
Earnings before interest and taxes		\$ 142.7	\$ 100.5		42.0 %

Q3 2018 VS. Q2 2018

The proportionate share of associates' earnings were \$39.8 million in the third quarter of 2018, an increase of \$2.2 million from the second quarter of 2018. Net investment income and other was \$3.8 million in the third quarter of 2018, compared to \$4.0 million in the second quarter.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.2 million higher in the third quarter of 2018 compared to the prior quarter.

IGM FINANCIAL INC.

CONSOLIDATED FINANCIAL POSITION

IGM Financial's total assets were \$15.4 billion at September 30, 2018, compared to \$16.5 billion at December 31, 2017.

OTHER INVESTMENTS

The composition of the Company's securities holdings is detailed in Table 16.

As a result of the adoption of IFRS 9 on January 1, 2018 (Note 2 to the Interim Financial Statements), other investments of \$19.9 million were reclassified from available for sale to fair value through profit or loss (FVTPL) and the Company elected to classify other investments of \$262.8 million at fair value through other comprehensive income (FVTOCI).

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Gains and losses on FVTOCI investments are recorded in Other comprehensive income.

Corporate Investments

Corporate investments is primarily comprised of the Company's investments in Personal Capital Corporation (Personal Capital), Wealthsimple Financial Corporation (Wealthsimple) and Portag3 Ventures LP (Portag3).

FAIR VALUE THROUGH PROFIT OR LOSS

Securities classified as FVTPL include equity securities and proprietary investment funds. Gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Certain proprietary investment funds are consolidated where the Company has made the assessment that it controls the investment fund. The underlying securities of these funds are classified as FVTPL.

LOANS

The composition of the Company's loans is detailed in Table 17.

Loans consisted of residential mortgages and represented 50.3% of total assets at September 30, 2018, compared to 47.6% at December 31, 2017.

Loans measured at amortized cost are primarily comprised of residential mortgages sold to securitization programs sponsored by third parties that in turn issue securities to investors. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$7.4 billion at September 30, 2018, compared to \$7.6 billion at December 31, 2017.

The Company holds loans pending sale or securitization. Loans measured at fair value through profit or loss are residential mortgages held temporarily by the Company pending sale. Upon adoption of IFRS 9, effective January 1, 2018, loans held for securitization are carried at amortized cost. As a result, \$282.6 million of the \$286.7 million loans classified as held for trading at fair value through profit or loss were reclassified to loans measured at amortized cost. Total loans being held pending sale or securitization are \$425.1 million at September 30, 2018 compared to \$286.7 million at December 31, 2017.

Residential mortgages originated by IG Wealth Management are funded primarily through sales to third parties on a fully serviced

TABLE 16: OTHER INVESTMENTS

(\$ millions)	SEPTEMBER 30, 2018		DECEMBER 31, 2017	
	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale				
Corporate investments	\$ N/A	\$ N/A	\$ 215.0	\$ 262.8
Proprietary investment funds	N/A	N/A	19.6	19.9
	N/A	N/A	234.6	282.7
Fair value through other comprehensive income				
Corporate investments	281.2	321.1	N/A	N/A
Fair value through profit or loss				
Equity securities	17.2	17.7	17.1	17.1
Proprietary investment funds	74.8	74.3	79.6	79.9
	92.0	92.0	96.7	97.0
	\$ 373.2	\$ 413.1	\$ 331.3	\$ 379.7

TABLE 17: LOANS

(\$ millions)	2018 SEPTEMBER 30	2017 DECEMBER 31
Amortized cost	\$ 7,744.8	\$ 7,564.0
Less: Allowance for expected credit losses	0.8	0.8
	7,744.0	7,563.2
Fair value through profit or loss	4.7	286.7
	\$ 7,748.7	\$ 7,849.9

basis, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization programs. IG Wealth Management services \$12.9 billion of residential mortgages, including \$2.5 billion originated by subsidiaries of Lifeco.

SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by IG Wealth Management mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company securitizes residential mortgages through the CMHC sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) and the Canada Mortgage Bond Program (CMB Program) and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. The Company retains servicing responsibilities and certain elements of credit risk and prepayment risk associated with the transferred assets. The Company's credit risk on its securitized mortgages is partially mitigated through the use of insurance. Derecognition of financial assets in accordance with IFRS is based on the transfer of risks and rewards of ownership. As the Company has retained prepayment risk and certain elements of credit risk associated with the Company's securitization transactions through the CMB and ABCP programs, they are accounted for as secured borrowings. The Company records the transactions under these programs as follows: (i) the mortgages and related obligations are carried at amortized cost, with interest income and interest expense, utilizing the effective interest rate method, recorded over the term of the mortgages, (ii) the component of swaps entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal, are recorded at fair value, and (iii) cash reserves held under the ABCP program are carried at amortized cost.

In the third quarter of 2018, the Company securitized loans through its mortgage banking operations with cash proceeds of

\$531.5 million compared to \$831.0 million in 2017. Additional information related to the Company's securitization activities, including the Company's hedges of related reinvestment and interest rate risk, can be found in the Financial Risk section of this MD&A and in Note 6 of the Interim Financial Statements.

INVESTMENT IN ASSOCIATES

GREAT-WEST LIFECO INC. (LIFECO)

At September 30, 2018, the Company held a 4% equity interest in Lifeco. IGM Financial and Lifeco are controlled by Power Financial Corporation.

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence. The Company's proportionate share of Lifeco's earnings is recorded in Net investment income and other in the Corporate and other reportable segment (Tables 2-4). Changes in the carrying value for the nine months ended September 30, 2018 compared with 2017 are shown in Table 18.

CHINA ASSET MANAGEMENT CO., LTD. (CHINA AMC)

Founded in 1998 as one of the first fund management companies in China, China AMC has developed and maintained a position among the market leaders in China's asset management industry.

China AMC's total assets under management, excluding subsidiary assets under management, were RMB¥ 906.0 billion (\$180.0 billion) at June 30, 2018, representing an increase of 4.2% (CAD\$ increase of 7.2%) from RMB¥ 869.6 billion (\$167.9 billion) at December 31, 2017.

The equity method is used to account for the Company's 13.9% equity interest in China AMC, as it exercises significant influence. The Company's proportionate share of China AMC's earnings is recorded in Net investment income and other in the Corporate and other reportable segment (Tables 2-4). Changes in the carrying value for the quarter ended September 30, 2018 are shown in Table 18.

TABLE 18: INVESTMENT IN ASSOCIATES

NINE MONTHS ENDED (\$ millions)	SEPTEMBER 30, 2018			SEPTEMBER 30, 2017		
	LIFECO	CHINA AMC	TOTAL	LIFECO	CHINA AMC	TOTAL
Carrying value, beginning of period						
As previously reported	\$ 903.1	\$ 647.9	\$ 1,551.0	\$ 888.9	\$ –	\$ 888.9
Change in accounting policy (IFRS 15)	(1.7)	–	(1.7)	–	–	–
	901.4	647.9	1,549.3	888.9	–	888.9
Additional investment	–	–	–	–	637.6	637.6
Dividends received	(46.4)	(12.2)	(58.6)	(43.8)	–	(43.8)
Proportionate share of:						
Earnings	93.6	21.8	115.4	74.8	3.0	77.8
Associate's restructuring provision ⁽¹⁾	–	–	–	(5.1)	–	(5.1)
Other comprehensive income (loss) and other adjustments	18.8	(16.2)	2.6	(4.0)	(6.7)	(10.7)
Carrying value, end of period	\$ 967.4	\$ 641.3	\$ 1,608.7	\$ 910.8	\$ 633.9	\$ 1,544.7

(1) Refer to the Summary of Consolidated Operating Results in this MD&A.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Cash and cash equivalents totalled \$586.7 million at September 30, 2018 compared with \$966.8 million at December 31, 2017 and \$599.3 million at September 30, 2017. Cash and cash equivalents related to the Company's deposit operations were \$3.5 million at September 30, 2018, compared to \$3.3 million at December 31, 2017 and \$4.6 million at September 30, 2017, as shown in Table 19.

Working capital, which consists of current assets less current liabilities, totalled \$319.9 million at September 30, 2018 compared with \$791.3 million at December 31, 2017 and \$634.2 million at September 30, 2017 (Table 20). The decrease in working capital is due to the early redemption of debentures in the amount of \$375 million, partly offset by the issuance of debentures totalling \$200 million. The decrease also resulted from the adoption of IFRS 9 which included the reclassification of certain loans from current assets to long-term assets.

TABLE 19: DEPOSIT OPERATIONS – FINANCIAL POSITION

(\$ millions)	2018	2017	2017
	SEP. 30	DEC. 31	SEP. 30
Assets			
Cash and cash equivalents	\$ 3.5	\$ 3.3	\$ 4.6
Client funds on deposit	446.1	489.6	406.5
Accounts and other receivables	6.6	0.8	0.6
Loans	21.7	21.7	23.2
Total assets	\$ 477.9	\$ 515.4	\$ 434.9
Liabilities and shareholders' equity			
Deposit liabilities	\$ 466.4	\$ 505.0	\$ 423.4
Other liabilities	0.6	0.5	0.5
Shareholders' equity	10.9	9.9	11.0
Total liabilities and shareholders' equity	\$ 477.9	\$ 515.4	\$ 434.9

Working capital is utilized to:

- Finance ongoing operations, including the funding of sales commissions.
- Temporarily finance mortgages in its mortgage banking operations.
- Pay interest and dividends related to long-term debt and preferred shares.
- Maintain liquidity requirements for regulated entities.
- Pay quarterly dividends on its outstanding common shares.
- Finance common share repurchases and retirement of long-term debt.

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization before sales commissions (EBITDA before sales commissions) totalled \$360.8 million in the third quarter of 2018 compared to \$330.8 million in the third quarter of 2017 and \$342.2 million in the second quarter of 2018. EBITDA before sales commissions excludes the impact of both commissions paid and commission amortization (refer to Table 1).

Earnings before interest, taxes, depreciation and amortization after sales commissions (EBITDA after sales commissions) totalled \$320.3 million in the third quarter of 2018 compared to \$270.7 million in the third quarter of 2017 and \$297.7 million in the second quarter of 2018. EBITDA after sales commissions excludes the impact of commission amortization (refer to Table 1).

Refer to the Financial Instruments Risk section of this MD&A for information related to other sources of liquidity and to the Company's exposure to and management of liquidity and funding risk.

CASH FLOWS

Table 21 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Interim Financial Statements for the three and nine month periods ended September 30, 2018. Cash and cash equivalents decreased by \$135.0 million in the third quarter of 2018 compared to a decrease of \$470.0 million in 2017. For the nine month period, cash and cash equivalents decreased by \$380.1 million in 2018 compared to a decrease of \$11.7 million in 2017.

Adjustments to determine net cash from operating activities during the three and nine month periods of 2018 compared to 2017 consist of non-cash operating activities offset by cash operating activities:

- The add-back of amortization of capitalized sale commissions offset by the deduction of capitalized sales commissions paid.
- The add-back of amortization of capital and intangible assets.
- The deduction of investment in associates' equity earnings offset by dividends received.
- The add-back of pension and other post-employment benefits offset by cash contributions.
- Changes in operating assets and liabilities and other.
- The add-back of one-time adjustments in the three and nine month periods of 2018, which included a restructuring provision and other, and in the nine month period of 2017, which included the pension plan adjustment and restructuring provisions and other.
- The deduction of restructuring provision cash payments.

Financing activities during the third quarter of 2018 compared to 2017 related to:

TABLE 20: WORKING CAPITAL

(\$ millions)	2018 SEP. 30	2017 DEC. 31	2017 SEP. 30
Current Assets			
Cash and cash equivalents	\$ 586.7	\$ 966.8	\$ 599.3
Client funds on deposit	446.1	489.6	406.5
Accounts receivable and other assets	364.9	373.1	383.6
Current portion of mortgages and other	1,239.9	1,465.9	1,526.0
	2,637.6	3,295.4	2,915.4
Current Liabilities			
Accounts and other payables	648.4	657.7	572.2
Deposits and certificates	459.3	496.4	414.1
Current portion of long-term liabilities	1,210.0	1,350.0	1,294.9
	2,317.7	2,504.1	2,281.2
Working Capital	\$ 319.9	\$ 791.3	\$ 634.2

TABLE 21: CASH FLOWS

(\$ millions)	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	2018	2017	% CHANGE	2018	2017	% CHANGE
Operating activities						
Earnings before income taxes	\$ 255.6	\$ 229.6	11.3 %	\$ 760.1	\$ 722.3	5.2 %
Income taxes paid	(11.3)	(47.4)	76.2	(94.9)	(137.4)	30.9
Adjustments to determine net cash from operating activities	(0.6)	10.3	N/M	(84.3)	(105.8)	20.3
	243.7	192.5	26.6	580.9	479.1	21.2
Financing activities	(452.0)	(309.9)	(45.9)	(1,024.9)	(269.2)	N/M
Investing activities	73.3	(352.6)	N/M	63.9	(221.6)	N/M
Change in cash and cash equivalents	(135.0)	(470.0)	71.3	(380.1)	(11.7)	N/M
Cash and cash equivalents, beginning of period	721.7	1,069.3	(32.5)	966.8	611.0	58.2
Cash and cash equivalents, end of period	\$ 586.7	\$ 599.3	(2.1) %	\$ 586.7	\$ 599.3	(2.1) %

- An increase in obligations to securitization entities of \$527.2 million and repayments of obligations to securitization entities of \$666.5 million in 2018 compared to an increase in obligations to securitization entities of \$822.4 million and repayments of obligations to securitization entities of \$993.4 million in 2017.
- Payment of debentures of \$375.0 million in the third quarter of 2018.
- Issuance of debentures of \$200.0 million in the third quarter of 2018.
- The payment of perpetual preferred share dividends which totalled \$2.2 million in 2018, unchanged from 2017.
- The payment of regular common share dividends which totalled \$135.5 million in 2018 compared to \$135.3 million in 2017.

Financing activities during the nine months ended September 30, 2018 compared to 2017 related to:

- An increase in obligations to securitization entities of \$1,238.3 million and repayments of obligations to securitization entities of \$1,530.8 million in 2018 compared to an increase in obligations to securitization entities of \$1,433.2 million and repayments of obligations to securitization entities of \$1,890.9 million in 2017.
- Payment of debentures of \$525.0 million in 2018, comprised of \$150.0 million in the first quarter and \$375 million in the third quarter.
- Issuance of debentures of \$200.0 million in 2018 compared to the issuance of \$600.0 million in 2017.
- The payment of perpetual preferred share dividends which totalled \$6.6 million in 2018, unchanged from 2017.

- The payment of regular common share dividends which totalled \$406.3 million in 2018 compared to \$405.9 million in 2017.

Investing activities during the third quarter of 2018 compared to 2017 primarily related to:

- The purchases of other investments totalling \$10.9 million and sales of other investments with proceeds of \$24.1 million in 2018 compared to \$33.9 million and \$6.0 million, respectively, in 2017.
- An increase in loans of \$444.5 million with repayments of loans and other of \$520.4 million in 2018 compared to \$793.8 million and \$933.4 million, respectively, in 2017, primarily related to residential mortgages in the Company's mortgage banking operations.
- Net cash used in additions to intangible assets and acquisitions was \$14.7 million in 2018 compared to \$23.0 million in 2017.

Investing activities during the nine months ended September 30, 2018 compared to 2017 primarily related to:

- The purchases of other investments totalling \$93.2 million and sales of other investments with proceeds of \$67.4 million in 2018 compared to \$137.0 million and \$42.7 million, respectively, in 2017.
- An increase in loans of \$1,300.3 million with repayments of loans and other of \$1,441.8 million in 2018 compared to \$1,978.6 million and \$2,340.7 million, respectively, in 2017, primarily related to residential mortgages in the Company's mortgage banking operations.
- The final payment related to investment in China AMC of \$439.3 million in 2017.

- Net cash used in additions to intangible assets and acquisitions was \$43.7 million in 2018 compared to \$38.7 million in 2017.

CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity which totalled \$6.4 billion at September 30, 2018, compared to \$7.0 billion at December 31, 2017. The reduction in Shareholders' equity in the nine month period was largely due to the adoption of IFRS 15 which resulted in an adjustment to opening retained earnings of \$514.6 million in the first quarter of 2018. The Company regularly assesses its capital management practices in response to changing economic conditions.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

The total outstanding long-term debt was \$1,850.0 million at September 30, 2018, compared to \$2,175.0 million at December 31, 2017. Long-term debt is comprised of debentures which are senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants. The net decrease in long-term debt of \$325.0 million resulted from:

- The maturity of the Company's \$150.0 million 6.58% debentures which were due and repaid on March 7, 2018.
- The issuance on July 22, 2018 of \$200.0 million 4.174% debentures maturing July 13, 2048. The offering was made pursuant to a prospectus supplement to IGM Financial's short form base shelf prospectus dated November 29, 2016. The net proceeds were used by IGM Financial, together with a portion of IGM Financial's existing internal cash resources, to fund the redemption of all of its \$375 million aggregate principal amount of 7.35% debentures due April 8, 2019.

Perpetual preferred shares of \$150 million at September 30, 2018 remain unchanged from December 31, 2017.

Other activities in 2018 included the declaration of perpetual preferred share dividends of \$6.6 million or \$1.10625 per share and common share dividends of \$406.4 million or \$1.6875 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

Standard & Poor's (S&P) current rating on the Company's senior unsecured debentures is "A" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Company's senior unsecured debentures is "A (High)" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a company and are indicators of the likelihood of payment and the capacity of a company to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites.

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The A rating assigned to IGM Financial's senior unsecured debentures by S&P is the sixth highest of the 22 ratings used for long-term debt. This rating indicates S&P's view that the Company's capacity to meet its financial commitment on the obligation is strong, but the obligation is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories.

The A (High) rating assigned to IGM Financial's senior unsecured debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. Under the DBRS long-term rating scale, debt securities rated A (High) are of good credit quality and the capacity for the payment of financial obligations is substantial. While this is a favourable rating, entities in the A (High) category may be vulnerable to future events, but qualifying negative factors are considered manageable.

FINANCIAL INSTRUMENTS

Table 22 presents the carrying amounts and fair values of financial assets and financial liabilities. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable

TABLE 22: FINANCIAL INSTRUMENTS

(\$ millions)	SEPTEMBER 30, 2018		DECEMBER 31, 2017	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial assets recorded at fair value				
Other investments				
– Fair value through other comprehensive income	\$ 321.1	\$ 321.1	\$ N/A	\$ N/A
– Available for sale	N/A	N/A	282.7	282.7
– Fair value through profit or loss	92.0	92.0	97.0	97.0
Loans				
– Fair value through profit or loss	4.7	4.7	286.7	286.7
Derivative financial instruments	32.3	32.3	35.7	35.7
Financial assets recorded at amortized cost				
Loans				
– Loans and receivables	7,744.0	7,729.5	7,563.2	7,675.5
Financial liabilities recorded at fair value				
Derivative financial instruments	36.7	36.7	28.4	28.4
Other financial liabilities	9.0	9.0	9.3	9.3
Financial liabilities recorded at amortized cost				
Deposits and certificates	466.4	466.7	505.0	505.5
Obligations to securitization entities	7,357.7	7,374.7	7,596.0	7,657.8
Long-term debt	1,850.0	2,056.7	2,175.0	2,470.2

approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, and certain other financial liabilities.

Fair value is determined using the following methods and assumptions:

- Other investments and other financial assets and liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.
- Loans classified as held for trading are valued using market interest rates for loans with similar credit risk and maturity, specifically lending rates offered to retail borrowers by financial institutions.
- Loans classified as loans and receivables are valued by discounting the expected future cash flows at prevailing market yields.

- Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.
- Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is valued using quoted prices for each debenture available in the market.
- Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

See Note 15 of the Interim Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the nine months ended September 30, 2018.

RISK MANAGEMENT

The Company is exposed to a variety of risks that are inherent in its business activities. Its ability to manage these risks is key to its ongoing success. The Company emphasizes a strong risk management culture and the implementation of an effective risk management approach. The risk management approach coordinates risk management across the organization and its business units and seeks to ensure prudent and measured risk-taking in order to achieve an appropriate balance between risk and return. Fundamental to our enterprise risk management program is protecting and enhancing our reputation.

RISK MANAGEMENT FRAMEWORK

The Company's risk management approach is undertaken through its Enterprise Risk Management (ERM) Framework which includes five core elements: risk governance, risk appetite, risk principles, a defined risk management process, and risk management culture. The ERM Framework is established under the Company's ERM Policy, which is approved by the Risk Management Committee.

RISK GOVERNANCE

The Company's risk governance structure emphasizes a comprehensive and consistent framework throughout the Company and its subsidiaries, with identified ownership of risk management in each business unit and oversight by an executive Risk Management Committee accountable to the Board of Directors. Additional oversight is provided by the Enterprise Risk Management (ERM) Department, compliance groups, and the Company's Internal Audit Department.

The Board of Directors provides primary oversight and carries out its risk management mandate. The Board is responsible for the oversight of enterprise risk management by: i) ensuring that appropriate procedures are in place to identify and manage risks and establish risk tolerances, ii) ensuring that appropriate policies, procedures and controls are implemented to manage risks, and iii) reviewing the risk management process on a regular basis to ensure that it is functioning effectively.

Other specific risks are managed with the support of the following Board committees:

- The Investment Committee oversees management of the Company's financial risks, being market risk, credit risk, and liquidity and funding risk by: i) ensuring that appropriate procedures are in place to identify and manage financial risks in accordance with tolerances, ii) monitoring the implementation and maintenance of appropriate policies, procedures and controls to manage financial risks, and iii) reviewing the financial risk management process on a regular basis to ensure that it is functioning effectively.

- The Audit Committee has specific risk oversight responsibilities in relation to financial disclosure, internal controls and the control environment as well as the Company's compliance activities.
- Other committees having specific risk oversight responsibilities include: i) the Human Resource Committee which oversees compensation policies and practices, ii) the Governance and Nominating Committee which oversees corporate governance practices, and iii) the Related Party and Conduct Review Committee which oversees conflicts of interest as well as the administration of the Code of Business Conduct and Ethics for Directors, Officers and Employees (Code of Conduct).

Management oversight for risk management resides with the executive Risk Management Committee which is comprised of the President and Chief Executive Officer, IGM Financial and IG Wealth Management, the President and Chief Executive Officer, Mackenzie Investments, the Chief Financial Officer, the General Counsel, the Chief Operating Officer and the Executive Vice President Strategy Execution Office. The committee is responsible for providing oversight of the Company's risk management process by: i) establishing and maintaining the risk framework and policy, ii) defining the Company's risk appetite, iii) ensuring the Company's risk profile and processes are aligned with corporate strategy and risk appetite, and iv) establishing "tone at the top" and reinforcing a strong culture of risk management.

The Chief Executive Officers of the operating companies have overall responsibility for overseeing risk management of their respective companies.

The Company has assigned responsibility for risk management using the Three Lines of Defence model, with the First Line reflecting the business units having primary responsibility for risk management, supported by Second Line risk management functions and a Third Line Internal Audit function providing assurance and validation of the design and effectiveness of the ERM Framework.

First Line of Defence

The leaders of the various business units and support functions have primary ownership and accountability for the ongoing risk management associated with their respective activities. Responsibilities of business unit and support function leaders include: i) establishing and maintaining procedures for the identification, assessment, documentation and escalation of risks, ii) implementing control activities to mitigate risks, iii) identifying opportunities for risk reduction or transfer, and iv) aligning business and operational strategies with the risk culture and risk appetite of the organization as established by the Risk Management Committee.

Second Line of Defence

The Enterprise Risk Management (ERM) Department provides oversight, analysis and reporting to the Risk Management Committee on the level of risks relative to the established risk appetite for all activities of the Company. Other responsibilities include: i) developing and maintaining the enterprise risk management program and framework, ii) managing the enterprise risk management process, and iii) providing guidance and training to business unit and support function leaders.

The Company has a number of committees of senior business leaders which provide oversight of specific business risks, including the Financial Risk Management and Operational Risk Management committees. These committees perform critical reviews of risk assessments, risk management practices and risk response plans developed by business units and support functions.

Other oversight accountabilities reside with the Company's corporate and compliance groups which are responsible for ensuring compliance with policies, laws and regulations.

Third Line of Defence

The Internal Audit Department is the third line of defence and provides independent assurance to senior management and the Board of Directors on the effectiveness of risk management policies, processes and practices.

RISK APPETITE AND RISK PRINCIPLES

The Risk Management Committee establishes the Company's appetite for different types of risk through the Risk Appetite Framework. Under the Risk Appetite Framework, one of four appetite levels is established for each risk type and business activity of the Company. These appetite levels range from those where the Company has no appetite for risk and seeks to minimize any losses, to those where the Company readily accepts exposure while seeking to ensure that risks are well understood and managed. These appetite levels guide our business units as they engage in business activities, and inform them in establishing policies, limits, controls and risk transfer activities.

A Risk Appetite Statement and Risk Principles provide further guidance to business leaders and employees as they conduct risk management activities. The Risk Appetite Statement's emphasis is to maintain the Company's reputation and brand, ensure financial flexibility, and focus on mitigating operational risk.

RISK MANAGEMENT PROCESS

The Company's risk management process is designed to foster:

- Ongoing assessment of risks and tolerance in a changing operating environment.

- Appropriate identification and understanding of existing and emerging risks and risk response.
- Timely monitoring and escalation of risks based upon changing circumstances.

Significant risks that may adversely affect the Company's ability to achieve its strategic and business objectives are identified through the Company's ongoing risk management process.

We use a consistent methodology across our organizations and business units for identification and assessment of risks. Risks are assessed by evaluating the impact and likelihood of the potential risk event after consideration of controls and any risk transfer activities. The results of these assessments are considered relative to risk appetite and tolerances and may result in action plans to adjust the risk profile.

Risk assessments are monitored and reviewed on an ongoing basis by business units and by oversight areas including the ERM Department. The ERM Department promotes and coordinates communication and consultation to support effective risk management and escalation. The ERM Department regularly reports on the results of risk assessments and on the assessment process to the Risk Management Committee and to the Board of Directors.

RISK MANAGEMENT CULTURE

Risk management is intended to be everyone's responsibility within the organization. The ERM Department engages all business units in workshops to foster awareness and incorporation of our risk framework into our business activities.

We have an established business planning process which reinforces our risk management culture. Our compensation programs are typically objectives-based, and do not encourage or reward excessive or inappropriate risk taking, and often are aligned specifically with risk management objectives.

Our risk management program emphasizes integrity, ethical practices, responsible management and measured risk-taking with a long-term view. Our standards of integrity and ethics are reflected within our Code of Conduct which applies to directors, officers and employees.

KEY RISKS OF THE BUSINESS

The Company identifies risks to which its businesses and operations could be exposed considering factors both internal and external to the organization. These risks are broadly grouped into six categories.

1) FINANCIAL RISK

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk of the inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise.

The Company's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near term liquidity needs.
- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and the Company's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity management by the Financial Risk Management Committee, a committee of finance business leaders, and by the Investment Committee of the Board of Directors.

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

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources and to manage any derivative collateral requirements related to the mortgage banking operation. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the CMB Program. The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in the Principal Reinvestment Accounts. The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions and government regulations that are subject to change. A condition of the NHA MBS and CMB Program is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is dependent upon market conditions and is subject to change.

As part of ongoing liquidity management during 2018 and 2017, the Company:

- Continued to expand our funding channels by issuing NHA MBS to multiple purchasers.
- Continued to assess and identify additional funding sources for the Company's mortgage banking operations, including the launch of a new residential mortgage product suite through our partners at National Bank in the fourth quarter of 2017, which complements our current mortgage offerings.
- Issued \$400 million of 10 year 3.44% debentures and \$200 million of 30 year 4.56% debentures in January 2017. The net proceeds were used by IGM Financial to finance a substantial portion of its acquisition of a 13.9% equity interest in China AMC in 2017 and for general corporate purposes.
- Issued \$250 million of 30 year 4.115% debentures in December 2017.
- Repaid the \$150.0 million 6.58% debentures in March 2018.
- Issued \$200 million of 30 year 4.174% debentures in July 2018. The net proceeds were used by IGM Financial, together with a portion of IGM Financial's existing internal cash resources, to fund the early redemption in August of all of its \$375 million aggregate principal amount of 7.35% debentures due April 8, 2019.

The Company's contractual obligations are reflected in Table 23.

In addition to IGM Financial's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled \$825 million at September 30, 2018, unchanged from December 31, 2017. The lines of credit as at September 30, 2018 consisted of committed lines of \$650 million (December 31, 2017 – \$650 million) and uncommitted lines of \$175 million (December 31, 2017 – \$175 million). The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines of credit are at the bank's sole discretion. As at September 30, 2018 and December 31, 2017, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2017, was completed in May 2018. The valuation determines the plan surplus or deficit on both a solvency and going concern basis. The solvency basis determines the relationship between the plan assets and its liabilities assuming that the plan is wound up and settled on the valuation date. A going concern valuation compares the relationship between the plan assets and the present value of the expected future benefit cash flows, assuming the plan will be maintained indefinitely. Based on the actuarial valuation, the registered pension plan had a solvency deficit

TABLE 23: CONTRACTUAL OBLIGATIONS

AS AT SEPTEMBER 30, 2018 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ –	\$ 8.7	\$ 27.2	\$ 0.8	\$ 36.7
Deposits and certificates	452.1	7.2	5.6	1.5	466.4
Obligations to securitization entities	–	1,201.3	6,116.0	40.4	7,357.7
Long-term debt	–	–	–	1,850.0	1,850.0
Operating leases ⁽¹⁾	–	27.6	67.0	31.3	125.9
Pension funding ⁽²⁾	–	4.3	–	–	4.3
Total contractual obligations	\$ 452.1	\$ 1,249.1	\$ 6,215.8	\$ 1,924.0	\$ 9,841.0

(1) Includes future minimum lease payments related to office space and equipment used in the normal course of business.

Lease payments are charged to earnings in the period of use.

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2020. Pension funding requirements beyond 2018 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

of \$47.2 million compared to \$82.7 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2016. The decrease in the solvency deficit resulted primarily from higher assets due to contribution and investment returns, and is required to be funded over five years. The registered pension plan had a going concern surplus of \$46.1 million compared to \$24.4 million in the previous valuation. The next required actuarial valuation will be based on a measurement date of December 31, 2020. The Company has made contributions of \$34.7 million in the nine months ended September 30, 2018 (2017 – \$12.3 million). The Company utilized \$10.5 million of the payments made during 2018 to reduce its solvency deficit and increase its going concern surplus. The Company expects to make further contributions of approximately \$4.3 million in 2018. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above are sufficient to meet the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the impact that debt and equity market performance has on the Company's fee income and commission and certain other expenses. The Company's liquidity position and its management

of liquidity and funding risk have not changed materially since December 31, 2017.

CREDIT RISK

Credit risk is the potential for financial loss to the Company if a counterparty to a transaction fails to meet its obligations.

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

Cash and Cash Equivalents

At September 30, 2018, cash and cash equivalents of \$586.7 million (December 31, 2017 – \$966.8 million) consisted of cash balances of \$63.7 million (December 31, 2017 – \$88.3 million) on deposit with Canadian chartered banks and cash equivalents of \$523.0 million (December 31, 2017 – \$878.5 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$35.2 million (December 31, 2017 – \$239.5 million), provincial government treasury bills and promissory notes of \$42.6 million (December 31, 2017 – \$252.6 million), bankers' acceptances and other short-term notes issued by Canadian chartered banks of \$420.7 million (December 31, 2017 – \$351.4 million), and highly rated corporate commercial paper of \$24.5 million (December 31, 2017 – \$35.0 million).

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

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

Mortgage Portfolio

As at September 30, 2018, residential mortgages, recorded on the Company's balance sheet, of \$7.7 billion (December 31, 2017 – \$7.8 billion) consisted of \$7.3 billion sold to securitization programs (December 31, 2017 – \$7.5 billion), \$425.1 million held pending sale or securitization (December 31, 2017 – \$286.7 million) and \$25.7 million related to the Company's intermediary operations (December 31, 2017 – \$26.0 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and
- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and IG Wealth Management Consultants as part of a client's comprehensive financial plan.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling \$4.2 billion (December 31, 2017 – \$4.5 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling \$3.1 billion (December 31, 2017 – \$3.1 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$71.4 million (December 31, 2017 – \$69.7 million) and \$37.7 million (December 31, 2017 – \$42.4 million), respectively, at September 30, 2018. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 10.0% of mortgages held in ABCP Trusts insured at September 30, 2018 (December 31, 2017 – 16.4%).

At September 30, 2018, residential mortgages recorded on balance sheet were 61.8% insured (December 31, 2017 – 65.5%). As at September 30, 2018, impaired mortgages on these portfolios were \$2.6 million, compared to \$2.8 million at

December 31, 2017. Uninsured non-performing mortgages over 90 days on these portfolios were \$0.9 million at September 30, 2018, compared to \$0.8 million at December 31, 2017.

The Company also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on the Company's balance sheet as the Company has transferred substantially all of the risks and rewards of ownership associated with these loans.

The Company regularly reviews the credit quality of the mortgages and the adequacy of the allowance for expected credit losses.

The Company's allowance for expected credit losses was \$0.8 million at September 30, 2018, unchanged from December 31, 2017, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

The Company's exposure to and management of credit risk related to mortgage portfolios have not changed materially since December 31, 2017.

Derivatives

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions and to hedge market risk related to certain stock-based compensation arrangements. These derivatives are discussed more fully under the Market Risk section of this MD&A.

To the extent that the fair value of the derivatives is in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfil their obligations under these arrangements.

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of \$32.8 million (December 31, 2017 – \$33.8 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was \$0.9 million at September 30, 2018 (December 31, 2017 – \$1.2 million).

Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at September 30, 2018. Management of credit risk related to derivatives has not changed materially since December 31, 2017.

Additional information related to the Company's securitization activities and utilization of derivative contracts can be found in Notes 2, 6 and 21 to the Annual Financial Statements.

MARKET RISK

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in foreign exchange rates, interest rates or equity prices.

Interest Rate Risk

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

The Company manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a positive fair value of \$15.7 million (December 31, 2017 – positive \$4.1 million) and an outstanding notional amount of \$1.4 billion at September 30, 2018 (December 31, 2017 – \$1.2 billion). The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The negative fair value of these swaps totalled \$19.0 million (December 31, 2017 – negative \$4.5 million), on an outstanding notional amount of \$2.0 billion at September 30, 2018 (December 31, 2017 – \$1.9 billion). The net fair value of these swaps of negative \$3.3 million at September 30, 2018 (December 31, 2017 – negative \$0.4 million) is recorded on the balance sheet and has an outstanding notional amount of \$3.4 billion (December 31, 2017 – \$3.1 billion).
- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. The Company enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by the Company pending sale or

securitization. The fair value of these swaps was \$0.7 million (December 31, 2017 – \$0.9 million) on an outstanding notional amount of \$225.7 million at September 30, 2018 (December 31, 2017 – \$137.0 million).

As at September 30, 2018, the impact to annual net earnings of a 100 basis point increase in interest rates would have been a decrease of approximately \$1.4 million (December 31, 2017 – a decrease of \$0.9 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2017.

Equity Price Risk

The Company is exposed to equity price risk on its equity investments which are classified as either fair value through other comprehensive income or fair value through profit or loss. The fair value of the equity investments was \$413.1 million at September 30, 2018 (December 31, 2017 – \$379.7 million), as shown in Table 16.

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

Foreign Exchange Risk

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

RISKS RELATED TO ASSETS UNDER MANAGEMENT

At September 30, 2018, IGM Financial's total assets under management were \$159.7 billion compared to \$156.5 billion at December 31, 2017.

The Company's primary sources of revenues are management, administration and other fees which are applied as an annual percentage of the level of assets under management. As a result, the level of the Company's revenues and earnings are indirectly exposed to a number of financial risks that affect the value of assets under management on an ongoing basis. These include market risks, such as changes in equity prices, interest rates and foreign exchange rates, as well as credit risk on debt securities, loans and credit exposures from other counterparties within our client portfolios.

Changing financial market conditions may also lead to a change in the composition of the Company's assets under management between equity and fixed income instruments, which could result in lower revenues depending upon the management fee rates associated with different asset classes and mandates.

The Company's exposure to the value of assets under management aligns it with the experience of its clients. Assets under management are broadly diversified by asset class, geographic region, industry sector, investment team and style. The Company regularly reviews the sensitivity of its assets under management, revenues, earnings and cash flow to changes in financial markets. The Company believes that over the long term, exposure to investment returns on its client portfolios is beneficial to the Company's results and consistent with stakeholder expectations, and generally it does not engage in risk transfer activities such as hedging in relation to these exposures.

2) OPERATIONAL RISK

Operational risks relating to people and processes are mitigated through policies and process controls. Oversight of risks and ongoing evaluation of the effectiveness of controls is provided by the Company's Compliance Department, ERM Department and Internal Audit Department.

The Company has an insurance review process where it assesses and determines the nature and extent of insurance that is appropriate to provide adequate protection against unexpected losses, and where it is required by law, regulators or contractual agreements.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human interaction or external events, but excludes business risk.

Operational risk affects all business activities, including the processes in place to manage other risks. As a result, operational risk can be difficult to measure, given that it forms part of other risks of the Company and may not always be separately identified. Our Company is exposed to a broad range of

operational risks, including information technology security and system failures, errors relating to transaction processing, financial models and valuations, fraud and misappropriation of assets, and inadequate application of internal control processes. The impact can result in significant financial loss, reputational harm or regulatory actions.

The Company's risk management framework emphasizes operational risk management and internal control. The Company has a very low appetite for risk in this area.

The business unit leaders are responsible for management of the day to day operational risks of their respective business units. Specific programs, policies, training, standards and governance processes have been developed to support the management of operational risk.

The Company has a business continuity management program to support the sustainment, management and recovery of critical operations and processes in the event of a business disruption.

TECHNOLOGY AND CYBER RISK

Technology and cyber risk driven by systems are managed through controls over technology development and change management. Information security is a significant risk to our industry and our Company's operations. The Company uses systems and technology to support its business operations and the client and financial advisor experience. As a result, we are exposed to risks relating to technology and cyber security such as data breaches, identity theft and hacking, including the risk of denial of service or malicious software attacks. Such attacks could compromise confidential information of the Company and that of clients or other stakeholders, and could result in negative consequences including lost revenue, litigation,

TABLE 24: IGM FINANCIAL ASSETS UNDER MANAGEMENT - ASSET AND CURRENCY MIX

AS AT SEPTEMBER 30, 2018	INVESTMENT FUNDS	TOTAL
Cash	1.2 %	0.8 %
Short-term fixed income and mortgages	5.4	5.5
Other fixed income	25.2	25.6
Domestic equity	22.5	22.4
Foreign equity	42.7	42.9
Real Property	3.0	2.8
	100.0 %	100.0 %
CAD	57.9 %	57.8 %
USD	27.6	28.2
Other	14.5	14.0
	100.0 %	100.0 %

regulatory scrutiny or reputational damage. To remain resilient to such threats, the Company has established enterprise-wide cyber security programs, benchmarked capabilities to sound industry practices, and has implemented threat and vulnerability assessment and response capabilities.

MODEL RISK

The Company uses a variety of models to assist in: the valuation of financial instruments, operational scenario testing, management of cash flows, capital management, and assessment of potential acquisitions. These models incorporate internal assumptions, observable market inputs and available market prices. Effective controls exist over the development, implementation and application of these models. However, changes in the internal assumptions or other factors affecting the models could have an adverse effect on the Company's consolidated financial position.

LEGAL AND REGULATORY COMPLIANCE

Legal and Regulatory Compliance Risk is the risk of not complying with laws, contractual agreements or regulatory requirements. This includes distribution compliance, investment management compliance, accounting and internal controls, and reporting and communications.

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements, including the requirements of agencies of the federal, provincial and territorial governments in Canada which regulate the Company and its activities. The Company and its subsidiaries are also subject to the requirements of self-regulatory organizations to which they belong. These and other regulatory bodies regularly adopt new laws, rules, regulations and policies that apply to the Company and its subsidiaries. These requirements include those that apply to IGM Financial as a publicly traded company and those that apply to the Company's subsidiaries based on the nature of their activities. They include regulations related to the management and provision of financial products and services, including securities, insurance and mortgages, and other activities carried on by the Company in the markets in which it operates. Regulatory standards affecting the Company and the financial services industry are significant and are being continually changed. The Company and its subsidiaries are subject to reviews as part of the normal ongoing process of oversight by the various regulators.

Failure to comply with laws, rules or regulations could lead to regulatory sanctions and civil liability, and may have an adverse reputational or financial effect on the Company. The Company manages legal and regulatory compliance risk through its efforts to promote a strong culture of compliance. The monitoring of regulatory developments and their impact on the Company

is overseen by the Regulatory Initiatives Committee chaired by the Senior Vice-President, General Counsel. The Company also continues to develop and maintain compliance policies, processes and oversight, including specific communications on compliance and legal matters, training, testing, monitoring and reporting. The Audit Committee of the Company receives regular reporting on compliance initiatives and issues.

IGM Financial promotes a strong culture of ethics and integrity through its Code of Conduct approved by the Board of Directors, which outlines standards of conduct that apply to all IGM Financial directors, officers and employees. The Code of Conduct incorporates many policies relating to the conduct of directors, officers and employees, and covers a variety of relevant topics, such as anti-money laundering and privacy. Individuals subject to the Code of Conduct attest annually that they understand the requirements and have complied with its provisions.

Business units are responsible for management of legal and regulatory compliance risk, and implementing appropriate policies, procedures and controls. The Company's Compliance Departments are responsible for providing oversight of all regulated compliance activities. The Internal Audit Department also provides oversight and investigations concerning regulatory compliance matters.

CONTINGENCIES

The Company is subject to legal actions arising in the normal course of its business. Although it is difficult to predict the outcome of any such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

3) GOVERNANCE, OVERSIGHT AND STRATEGIC RISK

Governance, oversight and strategic risk is the risk of potential adverse impacts resulting from inadequate or inappropriate governance, oversight, management of incentives and conflicts, and strategic planning.

IGM Financial believes in the importance of good corporate governance and the central role played by directors in the governance process. We believe that sound corporate governance is essential to the well-being of the Company and its shareholders.

Oversight of IGM Financial is performed by the Board of Directors directly and through its five committees. The Company's President and Chief Executive Officer has overall responsibility for management of the Company. The Company's activities are carried out principally by three operating companies – Investors Group Inc., Mackenzie Financial

Corporation and Investment Planning Counsel Inc. – each of which are managed by a President and Chief Executive Officer.

The Company has a business planning process that supports development of an annual business plan, approved by the Board of Directors, which incorporates objectives and targets for the Company. Components of management compensation are associated with the achievement of earnings targets and other objectives associated with the plan. Strategic plans and direction are part of this planning process and are integrated into the Company's risk management program.

ACQUISITION RISK

The Company is also exposed to risks related to its acquisitions. The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

4) REGULATORY DEVELOPMENTS

Regulatory development risk is the potential for changes to regulatory, legal, or tax requirements that may have an adverse impact upon the Company's business activities or financial results.

The Company is exposed to the risk of changes in laws, taxation and regulation that could have an adverse impact on the Company. Particular regulatory initiatives may have the effect of making the products of the Company's subsidiaries appear to be less competitive than the products of other financial service providers, to third party distribution channels and to clients. Regulatory differences that may impact the competitiveness of the Company's products include regulatory costs, tax treatment, disclosure requirements, transaction processes or other differences that may be as a result of differing regulation or application of regulation. Regulatory developments may also impact product structures, pricing, and dealer and advisor compensation. While the Company and its subsidiaries actively monitor such initiatives, and where feasible comment upon or discuss them with regulators, the ability of the Company and its subsidiaries to mitigate the imposition of differential regulatory treatment of financial products or services is limited.

CLIENT FOCUSED REFORMS AND MUTUAL FUND EMBEDDED COMMISSIONS

On June 21, 2018, the Canadian Securities Administrators (the CSA) published a notice requesting public comment on

proposed amendments aimed at enhancing the client-registrant relationship (the Client Focused Reforms). The Client Focused Reforms include rule proposals that, if implemented, would require registrants to:

- Address all conflicts of interest in the best interest of the client;
- Put the client's interest first when making a suitability determination; and
- Provide clients with greater clarity on what they should expect from registrants.

The proposals relating to know-your-client and know-your-product are designed to support these provisions. They are also intended to provide clarity about what information must be collected about a client, and to increase rigor and transparency around the products and services that registrants make available to their clients. The notice also specified that the Ontario Securities Commission and the Financial and Consumer Services Commission of New Brunswick will not pursue the adoption of an overarching regulatory best interest standard, consistent with all other CSA jurisdictions. The Company's subsidiaries submitted comment letters on the Client Focused Reforms.

On September 13, 2018, the CSA published a notice requesting public comment on proposed amendments that, if implemented, would prohibit all forms of the deferred sales charge purchase option, including low-load options and their associated upfront commissions (the Embedded Commission Proposals). The Embedded Commission Proposals specified that embedded commissions such as trailing commissions will remain permissible, subject to the enhanced conflict of interest mitigation rules and guidance set out in the Client Focused Reforms.

The Company believes it is well positioned to respond to these recent regulatory proposals, which allow for different operating models, including registered firms that trade in, or recommend, proprietary products. The Company and its subsidiaries will continue its active dialogue and engagement with regulators on each of these subjects.

5) BUSINESS RISK

GENERAL BUSINESS CONDITIONS

General Business Conditions Risk refers to the potential for an unfavourable impact on IGM Financial resulting from competitive or other external factors relating to the marketplace.

Global economic conditions, changes in equity markets, demographics and other factors including political and government instability, can affect investor confidence, income levels and savings decisions. This could result in reduced sales of IGM Financial's products and services and/or result in investors redeeming their investments. These factors may also affect the

level of financial markets and the value of the Company's assets under management, as described more fully under the Risks Related to Assets Under Management section of this MD&A.

The Company, across its operating subsidiaries, is focused on communicating with clients and emphasizing the importance of financial planning across economic cycles. The Company and the industry continue to take steps to educate Canadian investors on the merits of financial planning, diversification and long-term investing. In periods of volatility, Consultants and independent financial advisors play a key role in assisting investors in maintaining perspective and focus on their long-term objectives.

Redemption rates for long-term funds are summarized in Table 25 and are discussed in the IG Wealth Management and Mackenzie Segment Operating Results sections of this MD&A.

PRODUCT / SERVICE OFFERING

There is potential for unfavourable impacts on IGM Financial resulting from inadequate product or service performance, quality or breadth.

IGM Financial and its subsidiaries operate in a highly competitive environment, competing with other financial service providers, investment managers and product and service types. Client development and retention can be influenced by a number of factors, including products and services offered by competitors, relative service levels, relative pricing, product attributes, reputation and actions taken by competitors. This competition could have an adverse impact upon the Company's financial position and operating results. Please refer to The Competitive Landscape section of this MD&A for further discussion.

The Company provides Consultants, independent financial advisors, as well as retail and institutional clients with a high level of service and support and a broad range of investment products, with a focus on building enduring relationships. The Company's subsidiaries also continually review their respective product and service offering and pricing to ensure competitiveness in the marketplace.

The Company strives to deliver strong investment performance on its products relative to benchmarks and peers. Poor

investment performance relative to benchmarks or peers could reduce the level of assets under management and sales and asset retention, as well as adversely impact our brands. Meaningful and/or sustained underperformance could affect the Company's results. The Company's objective is to cultivate investment processes and disciplines that provide it with a competitive advantage, and does so by diversifying its assets under management and product shelf by investment team, brand, asset class, mandate, style and geographic region.

BUSINESS / CLIENT RELATIONSHIPS

Business/Client relationships risk refers to the risk potential for unfavourable impacts on IGM Financial resulting from changes to other key relationships. These relationships primarily include IG Wealth Management clients and consultants, Mackenzie retail distribution, strategic and significant business partners, clients of Mackenzie funds, and sub-advisors and other product suppliers.

IG Wealth Management Consultant network – IG Wealth Management derives all of its mutual fund sales through its Consultant network. IG Wealth Management Consultants have regular direct contact with clients which can lead to a strong and personal client relationship based on the client's confidence in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on IG Wealth Management's results of operations and business prospects. IG Wealth Management is focused on strengthening its distribution network of Consultants and on responding to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice, as discussed in the IG Wealth Management Review of the Business section of this MD&A.

Mackenzie – Mackenzie derives the majority of its mutual fund sales through third party financial advisors. Financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. Mackenzie also derives sales of its investment products and services from its strategic alliance and institutional clients. Due to the nature of the

TABLE 25: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

	2018 SEP. 30	2017 SEP. 30
IGM Financial Inc.		
IG Wealth Management	8.8 %	8.5 %
Mackenzie	16.4 %	15.0 %
Counsel	16.8 %	16.6 %

distribution relationship in these relationships and the relative size of these accounts, gross sale and redemption activity can be more pronounced in these accounts than in a retail relationship. Mackenzie's ability to market its investment products is highly dependent on continued access to these distribution networks. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. Mackenzie is well positioned to manage this risk and to continue to build and enhance its distribution relationships. Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading investment management companies. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

PEOPLE RISK

People risk refers to the potential inability to attract or retain key employees or Consultants, develop to an appropriate level of proficiency, or manage personnel succession or transition.

Management, investment and distribution personnel play an important role in developing, implementing, managing and distributing products and services offered by IGM Financial. The loss of these individuals or an inability to attract, retain and motivate sufficient numbers of qualified personnel could affect IGM Financial's business and financial performance.

6) ENVIRONMENTAL RISK

Environmental risk is the risk of loss resulting from environmental issues involving our business activities and our operations.

Environmental risk covers a broad spectrum of issues, such as climate change, biodiversity and ecosystem health, pollution, waste and the unsustainable use of water and other resources. Key environmental risks to IGM Financial include:

- Direct risks associated with the ownership and operation of our businesses, which includes management and operation of company-owned or managed assets and business operations;

- Indirect risks as a result of the products and services we offer and our procurement practices;
- Identification and management of emerging environmental regulatory issues; and
- Failure to understand and appropriately leverage environment related trends to meet client demands for products and services.

IGM Financial has a long-standing commitment to responsible management, as articulated in the Company's Corporate Responsibility Statement approved by the Board of Directors and also within the Company's Environmental Policy which commit us to responsibly manage our environmental footprint.

Failure to adequately manage environmental risks could adversely impact our results or our reputation.

IGM Financial manages environmental risks across the Company, with business unit management having responsibility for identifying, assessing, controlling and monitoring environmental risks pertaining to their operations. IGM Financial's Executive Management Corporate Responsibility Committee oversees its commitment to environmental responsibility.

IG Wealth Management and Mackenzie are signatories to the Principles for Responsible Investment (PRI). Under the PRI, investors formally commit to incorporate environmental, social and governance (ESG) issues into their investment processes. In addition, IG Wealth Management, Mackenzie and Investment Planning Counsel have implemented investing policies which provide information on how these ESG issues are implemented at each company.

IGM Financial reports on its environmental management and performance in its Corporate Responsibility Report. In addition, the Company participates in the Carbon Disclosure Project (CDP) survey, which promotes corporate disclosures on greenhouse gas emissions and climate change management.

OUTLOOK

THE FINANCIAL SERVICES ENVIRONMENT

Canadians held \$4.5 trillion in discretionary financial assets with financial institutions at December 31, 2017 based on the most recent report from Investor Economics. The nature of holdings was diverse, ranging from demand deposits held for short-term cash management purposes to longer-term investments held for retirement purposes. Approximately 66% (\$3.0 trillion) of these financial assets are held within the context of a relationship with a financial advisor, and this is the primary channel serving the longer-term savings needs of Canadians. Of the \$1.5 trillion held outside of a financial advisory relationship, approximately 63% consisted of bank deposits.

Financial advisors represent the primary distribution channel for the Company's products and services, and the core emphasis of the Company's business model is to support these financial advisors as they work with clients to plan for and achieve their financial goals. Multiple sources of emerging research show significantly better financial outcomes for Canadians who use financial advisors compared to those who do not. The Company actively promotes the value of financial advice and the importance of a relationship with an advisor to develop and remain focused on long-term financial plans and goals.

Approximately 41% of Canadian discretionary financial assets or \$1.8 trillion resided in investment funds at December 31, 2017, making it the largest financial asset class held by Canadians. Other asset types include deposit products and direct securities such as stocks and bonds. Approximately 77% of investment funds are comprised of mutual fund products, with other product categories including segregated funds, hedge funds, pooled funds, closed end funds and exchange traded funds. With \$153 billion in investment fund assets under management at September 30, 2018, the Company is among the country's largest investment fund managers. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

Competition and technology have fostered a trend towards financial service providers offering a comprehensive range of proprietary products and services. Traditional distinctions between bank branches, full service brokerages, financial planning firms and insurance agent sales forces have become obscured as many of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf. Accordingly, the Canadian financial services industry is characterized by a number of large,

diversified, vertically-integrated participants, similar to IGM Financial, who offer both financial planning and investment management services.

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 45% of total industry long-term mutual fund assets at September 30, 2018.

The Canadian mutual fund industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 74% of industry long-term mutual fund assets and 74% of total mutual fund assets under management at September 30, 2018. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

Management believes that the financial services industry will continue to be influenced by the following trends:

- Shifting demographics as the number of Canadians in their prime savings and retirement years continue to increase.
- Changes in investor attitudes based on economic conditions.
- Continued importance of the role of the financial advisor.
- Public policy related to retirement savings.
- Changes in the regulatory environment.
- An evolving competitive landscape.
- Advancing and changing technology.

THE COMPETITIVE LANDSCAPE

IGM Financial and its subsidiaries operate in a highly competitive environment. IG Wealth Management and Investment Planning Counsel compete directly with other retail financial service providers, including other financial planning firms, as well as full service brokerages, banks and insurance companies. IG Wealth Management, Mackenzie and Investment Planning Counsel compete directly with other investment managers for assets under management, and their products compete with stocks, bonds and other asset classes for a share of the investment assets of Canadians.

Competition from other financial service providers, alternative product types or delivery channels, and changes in regulations or public preferences could impact the characteristics of product and service offerings of the Company, including pricing, product structures, dealer and advisor compensation and disclosure. The

Company monitors developments on an ongoing basis, and engages in policy discussions and develops product and service responses as appropriate.

IGM Financial continues to focus on its commitment to provide quality investment advice and financial products, service innovations, effective management of the Company and long-term value for its clients and shareholders. Management believes that the Company is well-positioned to meet competitive challenges and capitalize on future opportunities.

The Company enjoys several competitive strengths, including:

- Broad and diversified distribution with an emphasis on those channels emphasizing comprehensive financial planning through a relationship with a financial advisor.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.
- Benefits of being part of the Power Financial group of companies.

BROAD AND DIVERSIFIED DISTRIBUTION

IGM Financial's distribution strength is a competitive advantage. In addition to owning two of Canada's largest financial planning organizations, IG Wealth Management and Investment Planning

Counsel, IGM Financial has, through Mackenzie, access to distribution through over 30,000 independent financial advisors. Mackenzie also, in its growing strategic alliance business, partners with Canadian and U.S. manufacturing and distribution complexes to provide investment management to a number of retail investment fund mandates.

BROAD PRODUCT CAPABILITIES

IGM Financial's subsidiaries continue to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

ENDURING RELATIONSHIPS

IGM Financial enjoys significant advantages as a result of the enduring relationships that advisors enjoy with clients. In addition, the Company's subsidiaries have strong heritages and cultures which are challenging for competitors to replicate.

BENEFITS OF BEING PART OF THE POWER FINANCIAL GROUP OF COMPANIES

As part of the Power Financial group of companies, IGM Financial benefits through expense savings from shared service arrangements, as well as through access to distribution, products and capital.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

There were no changes to the Company's assumptions related to critical accounting estimates from those reported at December 31, 2017.

The Company completed its annual impairment tests of goodwill and indefinite life intangible assets based on March 31, 2018 financial information and determined there was no impairment in the value of those assets.

The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing the recoverable amounts, valuation approaches are used that include discounted cash flow analysis and application of capitalization multiples to financial and operating metrics based upon precedent acquisition transactions and trading comparables. Assumptions and estimates employed include future changes in assets under management resulting from net sales and investment returns, pricing and profit margin changes, discount rates, and capitalization multiples.

CHANGES IN ACCOUNTING POLICIES

IFRS 9 FINANCIAL INSTRUMENTS (IFRS 9)

As of January 1, 2018, the Company has adopted IFRS 9 which replaces IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 was completed in three separate phases:

- Classification and measurement: This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- Impairment methodology: This phase replaces the incurred loss model for impairment of financial assets with an expected credit loss model.
- Hedge accounting: This phase replaces the rule-based hedge accounting requirements with guidance that more closely aligns the accounting with an entity's risk management activities.

The Company has elected not to restate its comparative financial information for the effect of applying IFRS 9, as permitted by the transitional provisions within IFRS 9. The cumulative impact of applying IFRS 9 has therefore been recognized as an adjustment to the current period's opening retained earnings and comparative information continues to be presented in accordance with IAS 39.

The cumulative impact relating to classification and measurement under IFRS 9 has resulted in an after tax increase to opening retained earnings of approximately \$36.3 million (\$49.7 million before tax) as at January 1, 2018.

Loans of \$282.6 million previously classified as held for trading were reclassified to amortized cost as a result of the Company's business model and contractual cash flow characteristics assessment.

A total remeasurement of \$49.7 million was recorded due to the reversal of discounts related to fair value losses recognized on the loans and the capitalization of previously expensed mortgage issue costs.

Other investments of \$19.9 million were reclassified from available for sale to fair value through profit or loss (FVTPL).

The Company elected to classify other investments of \$262.8 million at fair value through other comprehensive income (FVTOCI). This reclassification had no impact to opening retained earnings, however under this election, unrealized gains and losses on these investments will never be recycled through profit or loss.

The Company has adopted the hedge accounting requirements of IFRS 9. As a result of the business model assessment, mortgages previously classified as held for trading and subsequently reclassified to loans and receivables are now classified at amortized cost when originated. The Company has therefore designated certain derivative instruments as hedging instruments to avoid an accounting mismatch between derivative instruments and associated loans. Application of IFRS 9 hedge accounting requirements did not have a material impact in the first quarter of 2018.

The application of the expected credit loss model did not have a material impact to the Company's loan loss provision.

Table 26 details the impact of IFRS 9 and IFRS 15 on the Consolidated Balance Sheet as at January 1, 2018.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

As of January 1, 2018, the Company has adopted IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration.

IFRS 15 outlines various criteria for the eligibility of capitalizing contract costs. Determining whether the customer is the fund or the end investor impacts whether costs should be capitalized as a cost of obtaining a contract with a customer or whether they should be assessed as a cost of fulfilling a contract with a customer.

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

The Company has elected not to restate its comparative financial information for the effect of applying IFRS 15, as permitted by the transitional provisions within IFRS 15. The cumulative impact of applying IFRS 15 has therefore been recognized as an adjustment to the current period's opening retained earnings and comparative information continues to be presented in accordance with the Company's accounting policies in effect as at December 31, 2017.

The cumulative impact from the Company's application of IFRS 15 has resulted in an after tax decrease to opening retained earnings of approximately \$514.6 million (\$703.5 million before tax) as at January 1, 2018.

Capitalized sales commissions of \$703.5 million were derecognized as they related to commissions paid on sales where the customer was the investment fund. This resulted in a decrease to the Company's Deferred income taxes liability of \$188.9 million.

On January 1, 2018, Great-West Lifeco Inc. (Lifeco) also adopted IFRS 15 (Note 7). The impact from Lifeco's application of IFRS 15 has resulted in a decrease in the Company's investment in associates of \$1.7 million and a decrease in opening retained earnings of \$1.7 million as at January 1, 2018.

Table 26 details the impact of IFRS 9 and IFRS 15 on the Consolidated Balance Sheet as at January 1, 2018.

TABLE 26: IMPACT OF IFRS 9 AND IFRS 15 ON BALANCE SHEET

(\$ millions)	DECEMBER 31, 2017		ADJUSTMENT DUE TO CHANGES IN :		JANUARY 1, 2018	
	CLASSIFICATION	CARRYING VALUE	CLASSIFICATION	MEASUREMENT	CARRYING VALUE	CLASSIFICATION
Assets						
Loans ⁽¹⁾	Held for trading	286.7	(282.6)	-	4.1	FVTPL
	Loans & receivables	7,563.2	282.6	49.7	7,895.5	Amortized Cost
		7,849.9	-	49.7	7,899.6	
Other investments ⁽¹⁾	Available for sale	282.7	(19.9)	-	262.8	FVTOCI
	FVTPL	97.0	19.9	-	116.9	FVTPL
Investment in associates ⁽²⁾		1,551.0	-	(1.7)	1,549.3	
Capitalized sales commissions ⁽²⁾		767.3	-	(703.5)	63.8	
			-	(655.5)		
Liabilities & Shareholders' Equity						
Income tax payable ⁽¹⁾		8.0	-	6.9	14.9	
Deferred income taxes ⁽¹⁾⁽²⁾		463.9	-	(182.4)	281.5	
Retained earnings ⁽¹⁾⁽²⁾		3,100.8	-	(480.0)	2,620.8	
AOCI ⁽¹⁾		(71.1)	-	-	(71.1)	
			-	(655.5)		

(1) Transition to IFRS 9

(2) Transition to IFRS 15

FUTURE ACCOUNTING CHANGES

The Company continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Company's operations.

IFRS 16 LEASES

The IASB issued IFRS 16 which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. IFRS 16 may be implemented using a retrospective approach or a modified retrospective approach, which permits the use of certain practical expedients upon

transition. The Company is still considering which method it will apply on transition.

The adoption of IFRS 16 will result in an increase to the Company's assets and liabilities through the recognition of a right-of-use asset and lease liability. Amortization expense will increase due to the amortization of the right-of-use asset and interest expense will increase due to the imputed interest on the lease liability. Overall expenses are not expected to be materially different due to the offsetting decrease to operating lease expense. The standard is effective for annual reporting periods beginning on or after January 1, 2019. The Company continues to assess the quantitative impact of the adoption of IFRS 16.

OTHER

The IASB is currently undertaking a number of projects which will result in changes to existing IFRS standards that may affect the Company. Updates will be provided as the projects develop.

INTERNAL CONTROL OVER FINANCIAL REPORTING

During the third quarter of 2018, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OTHER INFORMATION

TRANSACTIONS WITH RELATED PARTIES

There were no changes to the types of related party transactions from those reported at December 31, 2017. For further information on transactions involving related parties, see Notes 8 and 25 to the Company's Annual Financial Statements.

OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at September 30, 2018 totalled 240,834,520. Outstanding stock options as at September 30, 2018 totalled 9,815,931,

of which 4,813,369 were exercisable. As at October 30, 2018, outstanding common shares totalled 240,844,520 and outstanding stock options totalled 9,785,409 of which 4,782,847 were exercisable.

Perpetual preferred shares of \$150 million were outstanding as at September 30, 2018, unchanged at October 30, 2018.

SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at www.sedar.com.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF EARNINGS

<i>(unaudited)</i> <i>(in thousands of Canadian dollars, except per share amounts)</i>	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2018	2017	2018	2017
Revenues				
Management fees	\$ 573,825	\$ 541,836	\$ 1,693,207	\$ 1,616,539
Administration fees	109,054	109,126	323,711	329,328
Distribution fees	93,344	89,855	276,561	289,890
Net investment income and other	15,974	7,644	48,760	52,866
Proportionate share of associates' earnings	39,793	24,875	115,360	72,652
	831,990	773,336	2,457,599	2,361,275
Expenses				
Commission	270,073	275,996	826,335	849,751
Non-commission	268,676	238,792	774,448	704,768
Interest	37,703	28,949	96,737	84,439
	576,452	543,737	1,697,520	1,638,958
Earnings before income taxes	255,538	229,599	760,079	722,317
Income taxes	55,172	54,026	166,045	164,397
Net earnings	200,366	175,573	594,034	557,920
Perpetual preferred share dividends	2,213	2,213	6,638	6,638
Net earnings available to common shareholders	\$ 198,153	\$ 173,360	\$ 587,396	\$ 551,282
Earnings per common share <i>(in dollars)</i> (Note 16)				
– Basic	\$ 0.82	\$ 0.72	\$ 2.44	\$ 2.29
– Diluted	\$ 0.82	\$ 0.72	\$ 2.44	\$ 2.29

(See accompanying notes to interim condensed consolidated financial statements.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (in thousands of Canadian dollars)	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2018	2017	2018	2017
Net earnings	\$ 200,366	\$ 175,573	\$ 594,034	\$ 557,920
Other comprehensive income (loss), net of tax				
Items that will not be reclassified to Net earnings				
Fair value through other comprehensive income investments				
Other comprehensive income (loss), net of tax of \$164 and \$1,059	(1,032)	N/A	(6,784)	N/A
Employee benefits				
Net actuarial gains (losses), net of tax of \$(4,742), \$(6,822), \$(7,426) and \$4,005	12,818	18,453	20,081	(10,825)
Investment in associates – employee benefits and other				
Other comprehensive income (loss), net of tax of nil	4,349	(2,249)	2,918	10,550
Items that may be reclassified subsequently to Net earnings				
Available for sale investments				
Net unrealized gains (losses), net of tax of \$665 and \$309	N/A	(4,323)	N/A	1,079
Reclassification of realized (gains) losses to net earnings, net of tax of \$11 and \$38	N/A	(34)	N/A	(106)
	N/A	(4,357)	N/A	973
Investment in associates and other				
Other comprehensive income (loss), net of tax of \$4,866, \$1,207, \$3,024 and \$82	(45,018)	(17,027)	4,944	(13,965)
	(28,883)	(5,180)	21,159	(13,267)
Total comprehensive income	\$ 171,483	\$ 170,393	\$ 615,193	\$ 544,653

(See accompanying notes to interim condensed consolidated financial statements.)

CONSOLIDATED BALANCE SHEETS

<i>(unaudited)</i> <i>(in thousands of Canadian dollars)</i>	SEPTEMBER 30 2018	DECEMBER 31 2017
Assets		
Cash and cash equivalents	\$ 586,670	\$ 966,843
Other investments <i>(Note 4)</i>	413,136	379,696
Client funds on deposit	446,089	489,626
Accounts and other receivables	353,418	305,062
Income taxes recoverable	6,499	33,928
Loans <i>(Note 5)</i>	7,748,747	7,849,873
Derivative financial instruments	32,305	35,692
Other assets	53,369	64,558
Investment in associates <i>(Note 7)</i>	1,608,722	1,551,013
Capital assets	142,021	150,468
Capitalized sales commissions <i>(Note 8)</i>	96,156	767,315
Deferred income taxes	58,819	60,661
Intangible assets	1,192,390	1,184,451
Goodwill	2,660,267	2,660,267
	\$ 15,398,608	\$ 16,499,453
Liabilities		
Accounts payable and accrued liabilities	\$ 387,500	\$ 406,821
Income taxes payable	44,389	8,018
Derivative financial instruments	36,656	28,444
Deposits and certificates	466,403	504,996
Other liabilities	417,861	491,280
Obligations to securitization entities <i>(Note 6)</i>	7,357,699	7,596,028
Deferred income taxes	287,100	463,862
Long-term debt <i>(Note 9)</i>	1,850,000	2,175,000
	10,847,608	11,674,449
Shareholders' Equity		
Share capital		
Perpetual preferred shares	150,000	150,000
Common shares	1,609,831	1,602,726
Contributed surplus	44,699	42,633
Retained earnings	2,796,424	3,100,775
Accumulated other comprehensive income (loss)	(49,954)	(71,130)
	4,551,000	4,825,004
	\$ 15,398,608	\$ 16,499,453

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 2, 2018.

(See accompanying notes to interim condensed consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

NINE MONTHS ENDED SEPTEMBER 30

(unaudited) (in thousands of Canadian dollars)	SHARE CAPITAL			RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Note 13)	TOTAL SHAREHOLDERS' EQUITY
	PERPETUAL PREFERRED SHARES (Note 10)	COMMON SHARES (Note 10)	CONTRIBUTED SURPLUS			
2018						
Balance, beginning of period						
As previously reported	\$ 150,000	\$ 1,602,726	\$ 42,633	\$ 3,100,775	\$ (71,130)	\$ 4,825,004
Change in accounting policy (Note 2)						
IFRS 9	-	-	-	36,334	17	36,351
IFRS 15	-	-	-	(516,312)	-	(516,312)
As restated	150,000	1,602,726	42,633	2,620,797	(71,113)	4,345,043
Net earnings	-	-	-	594,034	-	594,034
Other comprehensive income (loss), net of tax	-	-	-	-	21,159	21,159
Total comprehensive income	-	-	-	594,034	21,159	615,193
Common shares						
Issued under stock option plan	-	7,105	-	-	-	7,105
Stock options						
Current period expense	-	-	2,773	-	-	2,773
Exercised	-	-	(707)	-	-	(707)
Perpetual preferred share dividends	-	-	-	(6,638)	-	(6,638)
Common share dividends	-	-	-	(406,384)	-	(406,384)
Other	-	-	-	(5,385)	-	(5,385)
Balance, end of period	\$ 150,000	\$ 1,609,831	\$ 44,699	\$ 2,796,424	\$ (49,954)	\$ 4,551,000
2017						
Balance, beginning of period	\$ 150,000	\$ 1,597,208	\$ 39,552	\$ 3,042,442	\$ (82,442)	\$ 4,746,760
Net earnings	-	-	-	557,920	-	557,920
Other comprehensive income (loss), net of tax	-	-	-	-	(13,267)	(13,267)
Total comprehensive income	-	-	-	557,920	(13,267)	544,653
Common shares						
Issued under stock option plan	-	2,279	-	-	-	2,279
Stock options						
Current period expense	-	-	2,773	-	-	2,773
Exercised	-	-	(119)	-	-	(119)
Perpetual preferred share dividends	-	-	-	(6,638)	-	(6,638)
Common share dividends	-	-	-	(405,992)	-	(405,992)
Other	-	-	-	(2,176)	-	(2,176)
Balance, end of period	\$ 150,000	\$ 1,599,487	\$ 42,206	\$ 3,185,556	\$ (95,709)	\$ 4,881,540

(See accompanying notes to interim condensed consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (in thousands of Canadian dollars)	NINE MONTHS ENDED SEPTEMBER 30	
	2018	2017
Operating activities		
Earnings before income taxes	\$ 760,079	\$ 722,317
Income taxes paid	(94,939)	(137,386)
Adjustments to determine net cash from operating activities		
Capitalized sales commission amortization	10,132	173,262
Capitalized sales commissions paid	(42,467)	(207,965)
Amortization of capital and intangible assets	41,697	41,293
Proportionate share of associates' earnings, net of dividends received	(58,046)	(30,697)
Pension and other post-employment benefits	(18,253)	8,236
Pension plan amendment	-	(50,381)
Restructuring provisions and other	22,758	22,940
Changes in operating assets and liabilities and other	4,400	(45,994)
	625,361	495,625
Restructuring provision cash payments	(44,487)	(16,481)
	580,874	479,144
Financing activities		
Net decrease in deposits and certificates	(806)	(1,114)
Increase in obligations to securitization entities	1,238,291	1,433,192
Repayments of obligations to securitization entities and other	(1,530,838)	(1,890,875)
Issue of debentures	200,000	600,000
Repayment of debentures	(525,000)	-
Issue of common shares	6,398	2,160
Perpetual preferred share dividends paid	(6,638)	(6,638)
Common share dividends paid	(406,290)	(405,949)
	(1,024,883)	(269,224)
Investing activities		
Purchase of other investments	(93,160)	(136,977)
Proceeds from the sale of other investments	67,420	42,675
Increase in loans	(1,300,332)	(1,978,614)
Repayment of loans and other	1,441,776	2,340,693
Net additions to capital assets	(8,167)	(11,314)
Net cash used in additions to intangible assets and acquisitions	(43,701)	(38,743)
Investment in China Asset Management Co., Ltd.	-	(439,344)
	63,836	(221,624)
Decrease in cash and cash equivalents	(380,173)	(11,704)
Cash and cash equivalents, beginning of period	966,843	611,032
Cash and cash equivalents, end of period	\$ 586,670	\$ 599,328
Cash	\$ 63,703	\$ 55,639
Cash equivalents	522,967	543,689
	\$ 586,670	\$ 599,328
Supplemental disclosure of cash flow information related to operating activities		
Interest and dividends received	\$ 222,977	\$ 199,762
Interest paid	\$ 222,920	\$ 170,049

(See accompanying notes to interim condensed consolidated financial statements.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 (unaudited) (In thousands of Canadian dollars, except shares and per share amounts)

NOTE 1 CORPORATE INFORMATION

IGM Financial Inc. (the Company) is a publicly listed company (TSX: IGM), incorporated and domiciled in Canada. The registered address of the Company is 447 Portage Avenue, Winnipeg, Manitoba, Canada. The Company is controlled by Power Financial Corporation.

IGM Financial Inc. is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly within the advice segment of the financial services market. The Company's wholly-owned principal subsidiaries are Investors Group Inc. and Mackenzie Financial Corporation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited Interim Condensed Consolidated Financial Statements of the Company (Interim Financial Statements) have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using the accounting policies as set out in this note and in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2017. The Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements in the 2017 IGM Financial Inc. Annual Report.

CHANGES IN ACCOUNTING POLICIES

IFRS 9 FINANCIAL INSTRUMENTS (IFRS 9)

As of January 1, 2018, the Company has adopted IFRS 9 which replaces IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 was completed in three separate phases:

- Classification and measurement: This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- Impairment methodology: This phase replaces the incurred loss model for impairment of financial assets with an expected credit loss model.
- Hedge accounting: This phase replaces the rule-based hedge accounting requirements with guidance that more closely aligns the accounting with an entity's risk management activities.

The Company has elected not to restate its comparative financial information for the effect of applying IFRS 9, as permitted by the transitional provisions within IFRS 9. The cumulative impact of applying IFRS 9 has therefore been recognized as an adjustment to the current period's opening retained earnings and comparative information continues to be presented in accordance with IAS 39.

The cumulative impact relating to classification and measurement under IFRS 9 has resulted in an after tax increase to opening retained earnings of approximately \$36.3 million (\$49.7 million before tax) as at January 1, 2018.

Loans of \$282.6 million previously classified as held for trading were reclassified to amortized cost as a result of the Company's business model and contractual cash flow characteristics assessment.

A total remeasurement of \$49.7 million was recorded due to the reversal of discounts related to fair value losses recognized on the loans and the capitalization of previously expensed mortgage issue costs.

Other investments of \$19.9 million were reclassified from available for sale to fair value through profit or loss (FVTPL).

CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 9 FINANCIAL INSTRUMENTS (IFRS 9) (continued)

The Company elected to classify other investments of \$262.8 million at fair value through other comprehensive income (FVTOCI). This reclassification had no impact to opening retained earnings, however under this election, unrealized gains and losses on these investments will never be recycled through profit or loss.

The Company has adopted the hedge accounting requirements of IFRS 9. As a result of the business model assessment, mortgages previously classified as held for trading and subsequently reclassified to loans and receivables are now classified at amortized cost when originated. The Company has therefore designated certain derivative instruments as hedging instruments to avoid an accounting mismatch between derivative instruments and associated loans. Application of IFRS 9 hedge accounting requirements did not have a material impact in the first quarter of 2018.

The application of the expected credit loss model did not have a material impact to the Company's loan loss provision.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

As of January 1, 2018, the Company has adopted IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration.

IFRS 15 outlines various criteria for the eligibility of capitalizing contract costs. Determining whether the customer is the fund or the end investor impacts whether costs should be capitalized as a cost of obtaining a contract with a customer or whether they should be assessed as a cost of fulfilling a contract with a customer.

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

The Company has elected not to restate its comparative financial information for the effect of applying IFRS 15, as permitted by the transitional provisions within IFRS 15. The cumulative impact of applying IFRS 15 has therefore been recognized as an adjustment to the current period's opening retained earnings and comparative information continues to be presented in accordance with the Company's accounting policies in effect as at December 31, 2017.

The cumulative impact from the Company's application of IFRS 15 has resulted in an after tax decrease to opening retained earnings of approximately \$514.6 million (\$703.5 million before tax) as at January 1, 2018.

Capitalized sales commissions of \$703.5 million were derecognized as they related to commissions paid on sales where the customer was the investment fund. This resulted in a decrease to the Company's Deferred income taxes liability of \$188.9 million.

On January 1, 2018, Great-West Lifeco Inc. (Lifeco) also adopted IFRS 15 (Note 7). The impact from Lifeco's application of IFRS 15 has resulted in a decrease in the Company's investment in associates of \$1.7 million and a decrease in opening retained earnings of \$1.7 million as at January 1, 2018.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15) (continued)

Impact of the changes in accounting policies on the Consolidated Balance Sheet:

	DECEMBER 31, 2017		ADJUSTMENT DUE TO CHANGES IN :		JANUARY 1, 2018	
	CLASSIFICATION	CARRYING VALUE	CLASSIFICATION	MEASUREMENT	CARRYING VALUE	CLASSIFICATION
Assets						
Loans ⁽¹⁾	Held for trading	286,682	(282,572)	–	4,110	FVTPL
	Loans & receivables	7,563,191	282,572	49,729	7,895,492	Amortized Cost
		7,849,873	–	49,729	7,899,602	
Other investments ⁽¹⁾	Available for sale	282,756	(19,931)	–	262,825	FVTOCI
	FVTPL	96,940	19,931	–	116,871	FVTPL
Investment in associates ⁽²⁾		1,551,013	–	(1,728)	1,549,285	
Capitalized sales commissions ⁽²⁾		767,315	–	(703,494)	63,821	
			–	(655,493)		
Liabilities & Shareholders' Equity						
Income tax payable ⁽¹⁾		8,018	–	6,880	14,898	
Deferred income taxes ⁽¹⁾⁽²⁾		463,862	–	(182,412)	281,450	
Retained earnings ⁽¹⁾⁽²⁾		3,100,775	(17)	(479,961)	2,620,797	
AOCI ⁽¹⁾		(71,130)	17	–	(71,113)	
			–	(655,493)		

(1) Transition to IFRS 9

(2) Transition to IFRS 15

FINANCIAL INSTRUMENTS

All financial assets are initially recognized at fair value in the Consolidated Balance Sheets and are subsequently classified as measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVTOCI) or amortized cost based on the Company's assessment of the business model within which the financial asset is managed and the financial asset's contractual cash flow characteristics.

A financial asset is measured at amortized cost if it is held within a business model of holding financial assets and collecting contractual cash flows and those cash flows are comprised solely of payments of principal and interest. A financial asset is measured at FVTOCI if the financial asset is held within a business model of both collecting contractual cash flows and selling the financial assets or through an irrevocable election for equity instruments that are not held for trading. All other financial assets are measured at FVTPL. A financial asset that would otherwise be measured at amortized cost or FVTOCI can be designated as FVTPL through an irrevocable election if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets can only be reclassified when there is a change to the business model within which they are managed. Such reclassifications are applied on a prospective basis.

Financial liabilities are classified either as measured at amortized cost using the effective interest method or as FVTPL, which are recorded at fair value.

Unrealized gains and losses on financial assets classified as FVTOCI as well as other comprehensive income amounts, including unrealized foreign currency translation gains and losses related to the Company's investment in its associates, are recorded in the Consolidated Statements of Comprehensive Income on a net of tax basis. Accumulated other comprehensive income forms part of Shareholders' equity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

OTHER INVESTMENTS

Other investments, which are recorded on a trade date basis, are classified as either FVTOCI or FVTPL.

The Company has elected to classify equity investments held for long-term investments as FVTOCI. Unrealized gains and losses on FVTOCI investments are recorded in Other comprehensive income and transferred directly to retained earnings when realized without being recorded through profit or loss. Dividends declared are recorded in Net investment income and other in the Consolidated Statements of Earnings.

FVTPL investments are held for trading and are comprised of fixed income and equity investments and investments in proprietary investment funds. Unrealized and realized gains and losses, dividends declared, and interest income on these investments are recorded in Net investment income and other in the Consolidated Statements of Earnings.

LOANS

Loans are classified as either FVTPL or amortized cost, based on the Company's assessment of the business model within which the loan is managed.

Changes in fair value of loans measured at FVTPL are recorded in Net investment income and other in the Consolidated Statements of Earnings. Loans measured at amortized cost are recorded net of an allowance for expected credit losses. Interest income is accounted for on the accrual basis using the effective interest method for all loans and is recorded in Net investment income and other in the Consolidated Statements of Earnings.

The Company applies a three-stage impairment approach to measure expected credit losses on loans: 1) On origination, an allowance for 12-month expected credit losses is established, 2) Lifetime expected credit losses are recognized where there is a significant deterioration of credit quality, and 3) A loan is considered credit impaired when there is no longer reasonable assurance of collection.

SALES COMMISSIONS

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

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

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

COMPARATIVE FIGURES

The Company reclassified certain comparative figures in its Statements of Cash Flows to conform to the current year's presentation. The reclassifications are intended to provide additional details on the nature of the Company's cash flows and had no impact on the net earnings of the Company.

FUTURE ACCOUNTING CHANGES

The Company continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Company's operations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IFRS 16 LEASES

The IASB issued IFRS 16 which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. A lessee recognizes the related expense as depreciation on the right-of-use asset and interest on the lease liability. Short-term (less than 12 months) and low-value asset leases are exempt from these requirements. IFRS 16 may be implemented using a retrospective approach or a modified retrospective approach, which permits the use of certain practical expedients upon transition. The Company is still considering which method it will apply on transition.

The adoption of IFRS 16 will result in an increase to the Company's assets and liabilities through the recognition of a right-of-use asset and lease liability. Amortization expense will increase due to the amortization of the right-of-use asset and interest expense will increase due to the imputed interest on the lease liability. Overall expenses are not expected to be materially different due to the offsetting decrease to operating lease expense. The standard is effective for annual reporting periods beginning on or after January 1, 2019. The Company continues to assess the quantitative impact of the adoption of IFRS 16.

NOTE 3 NON-COMMISSION EXPENSES

During the third quarter, the Company incurred restructuring and other charges of \$22.7 million related to the re-engineering of North American equity offerings and associated personnel changes, as well as other initiatives to improve the Company's offerings and operational effectiveness.

NOTE 4 OTHER INVESTMENTS

	SEPTEMBER 30, 2018		DECEMBER 31, 2017	
	COST	FAIR VALUE	COST	FAIR VALUE
Available for sale				
Corporate investments	\$ N/A	\$ N/A	\$ 215,050	\$ 262,825
Proprietary investment funds	N/A	N/A	19,601	19,931
	N/A	N/A	234,651	282,756
Fair value through other comprehensive income				
Corporate investments	281,247	321,179	N/A	N/A
Fair value through profit or loss				
Equity securities	17,230	17,696	17,115	17,062
Proprietary investment funds	74,746	74,261	79,575	79,878
	91,976	91,957	96,690	96,940
	\$ 373,223	\$ 413,136	\$ 331,341	\$ 379,696

NOTE 5 LOANS

	CONTRACTUAL MATURITY			SEPTEMBER 30 2018 TOTAL	DECEMBER 31 2017 TOTAL
	1 YEAR OR LESS	1 – 5 YEARS	OVER 5 YEARS		
Amortized cost					
Residential mortgages	\$ 1,225,359	\$ 6,502,970	\$ 16,506	\$ 7,744,835	\$ 7,563,997
Less: Allowance for expected credit losses				801	806
				<u>7,744,034</u>	<u>7,563,191</u>
Fair value through profit or loss				<u>4,713</u>	<u>286,682</u>
				<u>\$ 7,748,747</u>	<u>\$ 7,849,873</u>

The change in the allowance for expected credit losses is as follows:

Balance, beginning of period	\$	806	\$	722
Write-offs, net of recoveries		(267)		(612)
Provision for credit losses		262		696
Balance, end of period	\$	<u>801</u>	\$	<u>806</u>

Total credit impaired loans as at September 30, 2018 were \$2,589 (December 31, 2017 – \$2,842).

Total interest income on loans was \$159.2 million (2017 – \$156.0 million). Total interest expense on obligations to securitization entities, related to securitized loans, was \$122.6 million (2017 – \$100.0 million). Gains realized on the sale of residential mortgages totalled \$1.5 million (2017 – \$7.5 million). Fair value adjustments related to mortgage banking operations totalled negative \$7.5 million (2017 – negative \$11.7 million). These amounts were included in Net investment income and other. Net investment income and other also includes other mortgage banking related items including portfolio insurance, issue costs, and other items.

NOTE 6 SECURITIZATIONS

The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as the Company retains prepayment risk and certain elements of credit risk. Accordingly, the Company has retained these mortgages on its balance sheets and has recorded offsetting liabilities for the net proceeds received as Obligations to securitization entities which are recorded at amortized cost.

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap transaction whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a positive fair value of \$15.7 million at September 30, 2018 (December 31, 2017 – positive \$4.1 million).

Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, the Company has provided cash reserves for credit enhancement which are recorded at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to the Company's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

NOTE 6 SECURITIZATIONS *(continued)*

SEPTEMBER 30, 2018	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value			
NHA MBS and CMB Program	\$ 4,226,619	\$ 4,247,067	\$ (20,448)
Bank sponsored ABCP	3,071,988	3,110,632	(38,644)
Total	\$ 7,298,607	\$ 7,357,699	\$ (59,092)
Fair value	\$ 7,287,736	\$ 7,374,745	\$ (87,009)
DECEMBER 31, 2017			
Carrying value			
NHA MBS and CMB Program	\$ 4,461,926	\$ 4,470,908	\$ (8,982)
Bank sponsored ABCP	3,076,083	3,125,120	(49,037)
Total	\$ 7,538,009	\$ 7,596,028	\$ (58,019)
Fair value	\$ 7,649,591	\$ 7,657,761	\$ (8,170)

The carrying value of Obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

NOTE 7 INVESTMENT IN ASSOCIATES

	SEPTEMBER 30, 2018			SEPTEMBER 30, 2017		
	LIFECO	CHINA AMC	TOTAL	LIFECO	CHINA AMC	TOTAL
Balance, beginning of period						
As previously reported	\$ 903,133	\$ 647,880	\$ 1,551,013	\$ 888,851	\$ -	\$ 888,851
Change in accounting policy <i>(Note 2)</i>	(1,728)	-	(1,728)	-	-	-
	901,405	647,880	1,549,285	888,851	-	888,851
Additional investment	-	-	-	-	637,619	637,619
Dividends received	(46,374)	(12,156)	(58,530)	(43,751)	-	(43,751)
Proportionate share of:						
Earnings ⁽¹⁾	93,598	21,762	115,360	74,764	2,986	77,750
Associates' provision	-	-	-	(5,098)	-	(5,098)
Other comprehensive income (loss) and other adjustments	18,769	(16,162)	2,607	(3,902)	(6,737)	(10,639)
Balance, end of period	\$ 967,398	\$ 641,324	\$ 1,608,722	\$ 910,864	\$ 633,868	\$ 1,544,732

(1) Recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings.

GREAT-WEST LIFECO INC. (LIFECO)

At September 30, 2018, the Company held 39,737,388 (December 31, 2017 – 39,737,388) shares of Lifeco, which represented an equity interest of 4.0% (December 31, 2017 – 4.0%).

In the second quarter of 2017, Lifeco established a restructuring provision. The Company's after-tax proportionate share was \$5.1 million and is recorded in the Consolidated Statements of Earnings.

NOTE 7 INVESTMENT IN ASSOCIATES *(continued)*

CHINA ASSET MANAGEMENT CO., LTD. (CHINA AMC)

On August 31, 2017, the Company finalized its investment in China AMC which resulted in a 13.9% ownership interest at a total cost of \$638.3 million.

China AMC is an asset management company established in Beijing, China and is controlled by CITIC Securities Company Limited.

As at September 30, 2018, the Company held a 13.9% ownership interest in China AMC. The Company uses the equity method to account for its investment in China AMC as it exercises significant influence. Significant influence arises from board representation, participating in the policy making process, shared strategic initiatives including joint product launches and collaboration between management and investment teams.

NOTE 8 CAPITALIZED SALES COMMISSIONS

	SEPTEMBER 30 2018	DECEMBER 31 2017
Cost	\$ 112,049	\$ 1,429,042
Less: accumulated amortization	(15,893)	(661,727)
	\$ 96,156	\$ 767,315
	SEPTEMBER 30 2018	SEPTEMBER 30 2017
Changes in capitalized sales commissions:		
Balance, beginning of period		
As previously reported	\$ 767,315	\$ 726,608
Change in accounting policy <i>(Note 2)</i>	(703,494)	-
	63,821	726,608
Changes due to:		
Sales of investment products	42,467	207,964
Amortization	(10,132)	(173,262)
	32,335	34,702
Balance, end of period	\$ 96,156	\$ 761,310

NOTE 9 LONG-TERM DEBT

On July 11, 2018, the Company issued \$200.0 million of 4.174% debentures maturing July 13, 2048. On August 10, 2018, the net proceeds were used by the Company, together with a portion of IGM Financial's existing internal cash resources, to fund the early redemption of all of its \$375 million aggregate principal amount of 7.35% debentures due April 8, 2019. A premium of \$10.7 million was paid on the early redemption of the 7.35% debentures.

NOTE 10 SHARE CAPITAL

AUTHORIZED

Unlimited number of:

- First preferred shares, issuable in series
- Second preferred shares, issuable in series
- Class 1 non-voting shares
- Common shares, no par value

ISSUED AND OUTSTANDING

	SEPTEMBER 30, 2018		SEPTEMBER 30, 2017	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Perpetual preferred shares – classified as equity:				
First preferred shares, Series B	6,000,000	\$ 150,000	6,000,000	\$ 150,000
Common shares:				
Balance, beginning of period	240,666,131	\$ 1,602,726	240,515,968	\$ 1,597,208
Issued under Stock Option Plan	168,389	7,105	77,581	2,279
Balance, end of period	240,834,520	\$ 1,609,831	240,593,549	\$ 1,599,487

NOTE 11 CAPITAL MANAGEMENT

The capital management policies, procedures and activities of the Company are discussed in the Capital Resources section of the Company's Management's Discussion and Analysis contained in the Third Quarter 2018 Report to Shareholders and in Note 17 to the Consolidated Financial Statements in the 2017 IGM Financial Inc. Annual Report and have not changed significantly since December 31, 2017.

NOTE 12 SHARE-BASED PAYMENTS

STOCK OPTION PLAN

	SEPTEMBER 30 2018	DECEMBER 31 2017
Common share options		
– Outstanding	9,815,931	8,912,748
– Exercisable	4,813,369	4,063,668

In the third quarter of 2018, the Company granted 725 options to employees (2017 – nil). In the nine months ended September 30, 2018, the Company granted 1,336,990 options to employees (2017 – 1,418,930). The weighted-average fair value of options granted during the nine months ended September 30, 2018 has been estimated at \$2.56 per option (2017 – \$2.52) using the Black-Scholes option pricing model. The weighted-average closing share price at the grant dates was \$39.10. The assumptions used in these valuation models include:

NOTE 12 SHARE-BASED PAYMENTS *(continued)*

	NINE MONTHS ENDED SEPTEMBER 30	
	2018	2017
Exercise price	\$ 39.28	\$ 41.70
Risk-free interest rate	2.35%	1.53%
Expected option life	6 years	6 years
Expected volatility	17.00%	17.00%
Expected dividend yield	5.73%	5.40%

Expected volatility has been estimated based on the historic volatility of the Company's share price over six years which is reflective of the expected option life. Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date.

NOTE 13 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	EMPLOYEE BENEFITS	OTHER INVESTMENTS	INVESTMENT IN ASSOCIATES AND OTHER	TOTAL
SEPTEMBER 30, 2018				
Balance, beginning of period				
As previously reported	\$ (132,529)	\$ 39,051	\$ 22,348	\$ (71,130)
Change in accounting policy <i>(Note 2)</i>	-	17	-	17
	(132,529)	39,068	22,348	(71,113)
Other comprehensive income (loss)	20,081	(6,784)	7,862	21,159
Balance, end of period	\$ (112,448)	\$ 32,284	\$ 30,210	\$ (49,954)
SEPTEMBER 30, 2017				
Balance, beginning of period	\$ (110,913)	\$ 8,617	\$ 19,854	\$ (82,442)
Other comprehensive income (loss)	(10,825)	973	(3,415)	(13,267)
Balance, end of period	\$ (121,738)	\$ 9,590	\$ 16,439	\$ (95,709)

Amounts are recorded net of tax.

NOTE 14 RISK MANAGEMENT

The risk management policies and procedures of the Company are discussed in the Financial Instruments Risk section of the Company's Management's Discussion and Analysis contained in the Third Quarter 2018 Report to Shareholders and in Note 20 to the Consolidated Financial Statements in the 2017 IGM Financial Inc. Annual Report and have not changed significantly since December 31, 2017.

NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values are management's estimates and are calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and are matters of significant judgment.

All financial instruments measured at fair value and those for which fair value is disclosed are classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation.

Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the most advantageous market, utilizing a hierarchy of three different valuation techniques, based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data; and

Level 3 – Unobservable inputs that are supported by little or no market activity. Valuation techniques are primarily model-based.

Markets are considered inactive when transactions are not occurring with sufficient regularity. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In those instances where traded markets are not considered sufficiently active, fair value is measured using valuation models which may utilize predominantly observable market inputs (Level 2) or may utilize predominantly non-observable market inputs (Level 3). Management considers all reasonably available information including indicative broker quotations, any available pricing for similar instruments, recent arm's length market transactions, any relevant observable market inputs, and internal model-based estimates. Management exercises judgment in determining the most appropriate inputs and the weighting ascribed to each input as well as in the selection of valuation methodologies.

Fair value is determined using the following methods and assumptions:

Other investments and other financial assets and financial liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.

Loans classified as Level 2 are valued using market interest rates for loans with similar credit risk and maturity.

Loans classified as Level 3 are valued by discounting the expected future cash flows at prevailing market yields.

Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.

Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is valued using quoted prices for each debenture available in the market.

Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

Level 1 financial instruments include exchange-traded equity investments and open-end investment fund units and other financial liabilities in instances where there are quoted prices available from active markets.

Level 2 assets and liabilities include fixed income securities, loans, derivative financial instruments, deposits and certificates and long-term debt. The fair value of fixed income securities is determined using quoted market prices or independent dealer price quotes. The fair value of derivative financial instruments and deposits and certificates are determined using valuation models, discounted cash flow methodologies, or similar techniques using primarily observable market inputs. The fair value of long-term debt is determined using indicative broker quotes.

NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Level 3 assets and liabilities include investments with little or no trading activity valued using broker-dealer quotes, loans, other financial assets, obligations to securitization entities and derivative financial instruments. Derivative financial instruments consist of principal reinvestment account swaps which represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. Fair value is determined by discounting the projected cashflows of the swaps. The notional amount, which is an input used to determine the fair value of the swap, is determined using an average unobservable prepayment rate of 15% which is based on historical prepayment patterns. An increase (decrease) in the assumed mortgage prepayment rate increases (decreases) the notional amount of the swap.

The following table presents the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table also excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, and certain other financial liabilities.

	CARRYING VALUE	FAIR VALUE			TOTAL
		LEVEL 1	LEVEL 2	LEVEL 3	
SEPTEMBER 30, 2018					
Financial assets recorded at fair value					
Other investments					
– FVTOCI	\$ 321,179	\$ –	\$ –	\$ 321,179	\$ 321,179
– FVTPL	91,957	91,348	–	609	91,957
Loans					
– FVTPL	4,713	–	4,713	–	4,713
Derivative financial instruments	32,305	–	12,284	20,021	32,305
Financial assets recorded at amortized cost					
Loans					
– Amortized cost	7,744,034	–	441,790	7,287,736	7,729,526
Financial liabilities recorded at fair value					
Derivative financial instruments	36,656	–	32,305	4,351	36,656
Other financial liabilities	8,998	8,895	103	–	8,998
Financial liabilities recorded at amortized cost					
Deposits and certificates	466,403	–	466,661	–	466,661
Obligations to securitization entities	7,357,699	–	–	7,374,745	7,374,745
Long-term debt	1,850,000	–	2,056,730	–	2,056,730
DECEMBER 31, 2017					
Financial assets recorded at fair value					
Other investments					
– Available for sale	\$ 282,756	\$ 19,931	\$ –	\$ 262,825	\$ 282,756
– Held for trading	96,940	95,390	889	661	96,940
Loans					
– Held for trading	286,682	–	286,682	–	286,682
Derivative financial instruments	35,692	–	22,879	12,813	35,692
Financial assets recorded at amortized cost					
Loans					
– Loans and receivables	7,563,191	–	25,917	7,649,591	7,675,508
Financial liabilities recorded at fair value					
Derivative financial instruments	28,444	–	19,726	8,718	28,444
Other financial liabilities	9,262	9,146	116	–	9,262
Financial liabilities recorded at amortized cost					
Deposits and certificates	504,996	–	505,486	–	505,486
Obligations to securitization entities	7,596,028	–	–	7,657,761	7,657,761
Long-term debt	2,175,000	–	2,470,182	–	2,470,182

NOTE 15 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

There were no significant transfers between Level 1 and Level 2 in 2018 and 2017.

The following table provides a summary of changes in Level 3 assets and liabilities measured at fair value on a recurring basis.

	BALANCE JANUARY 1	GAINS/ (LOSSES) INCLUDED IN NET EARNINGS ⁽¹⁾	GAINS/(LOSSES) INCLUDED IN OTHER COMPREHENSIVE INCOME	PURCHASES AND ISSUANCES	SETTLEMENTS	TRANSFERS IN/OUT	BALANCE SEPTEMBER 30
SEPTEMBER 30, 2018							
Assets							
Other investments							
– FVTOCI	\$ 262,825	\$ –	\$ (7,843)	\$ 66,197	\$ –	\$ –	\$ 321,179
– FVTPL	661	49	–	–	–	(101)	609
Derivative financial instruments, net	4,095	125	–	446	11,004	–	15,670
SEPTEMBER 30, 2017							
Assets							
Other investments							
– Available for sale	\$ 151,949	\$ –	\$ 2,874	\$ 72,650	\$ –	\$ –	\$ 227,473
– Held for trading	1,438	35	–	–	–	–	1,473
Liabilities							
Derivative financial instruments, net	23,055	12,180	–	1,015	11,818	–	72

(1) Included in Net investment income in the Consolidated Statements of Earnings.

NOTE 16 EARNINGS PER COMMON SHARE

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2018	2017	2018	2017
Earnings				
Net earnings	\$ 200,366	\$ 175,573	\$ 594,034	\$ 557,920
Perpetual preferred share dividends	2,213	2,213	6,638	6,638
Net earnings available to common shareholders	\$ 198,153	\$ 173,360	\$ 587,396	\$ 551,282
Number of common shares <i>(in thousands)</i>				
Weighted average number of common shares outstanding	240,829	240,589	240,799	240,573
Add: Potential exercise of outstanding stock options ⁽¹⁾	137	326	215	289
Average number of common shares outstanding – diluted basis	240,966	240,915	241,014	240,862
Earnings per common share <i>(in dollars)</i>				
– Basic	\$ 0.82	\$ 0.72	\$ 2.44	\$ 2.29
– Diluted	\$ 0.82	\$ 0.72	\$ 2.44	\$ 2.29

(1) Excludes 1,370 thousand shares for the three months ended September 30, 2018 (2017 – 766 thousand) related to outstanding stock options that were anti-dilutive. Excludes 1,139 thousand shares for the nine months ended September 30, 2018 (2017 – 888 thousand) related to outstanding stock options that were anti-dilutive.

NOTE 17 SEGMENTED INFORMATION

The Company's reportable segments are:

- IG Wealth Management
- Mackenzie Investments
- Corporate and Other

These segments reflect the Company's internal financial reporting and performance measurement. In the third quarter of 2018, the Company announced that it has rebranded Investors Group as IG Wealth Management. In 2017, the Company announced the combination of investment management functions of IG Wealth Management and Mackenzie Investments resulting in the formation of a single global investment management organization. As a result, the Company has changed the methodology used to charge its segments the costs associated with the single investment management function to better align it with internal reporting.

IG Wealth Management earns fee-based revenues in the conduct of its core business activities which are primarily related to the distribution, management and administration of its investment funds. It also earns fee revenues from the provision of brokerage services and the distribution of insurance and banking products. In addition, IG Wealth Management earns intermediary revenues primarily from mortgage banking and servicing activities and from the assets funded by deposit and certificate products.

Mackenzie Investments earns fee-based revenues from services it provides as fund manager to its investment funds and as investment advisor to sub-advisory and institutional accounts.

Corporate and Other includes Investment Planning Counsel, equity income from its investment in Lifeco and China AMC (Note 7), net investment income on unallocated investments, other income, and also includes consolidation elimination entries.

2018

THREE MONTHS ENDED SEPTEMBER 30	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 374,743	\$ 178,577	\$ 20,505	\$ 573,825
Administration fees	79,645	24,791	4,618	109,054
Distribution fees	42,585	1,694	49,065	93,344
Net investment income and other	13,315	(1,091)	3,750	15,974
Proportionate share of associates' earnings	–	–	39,793	39,793
	510,288	203,971	117,731	831,990
Expenses				
Commission	150,627	73,221	46,225	270,073
Non-commission	146,088	78,062	21,768	245,918
	296,715	151,283	67,993	515,991
Earnings before undernoted	\$ 213,573	\$ 52,688	\$ 49,738	315,999
Interest expense				(27,023)
Premium paid on early redemption of debentures (Note 9)				(10,680)
Restructuring and other charges (Note 3)				(22,758)
Earnings before income taxes				255,538
Income taxes				55,172
Net earnings				200,366
Perpetual preferred share dividends				2,213
Net earnings available to common shareholders				\$ 198,153

NOTE 17 SEGMENTED INFORMATION (continued)

2017

THREE MONTHS ENDED SEPTEMBER 30	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 352,508	\$ 175,287	\$ 14,041	\$ 541,836
Administration fees	79,865	24,494	4,767	109,126
Distribution fees	41,569	1,687	46,599	89,855
Net investment income and other	5,274	(301)	2,671	7,644
Proportionate share of associates' earnings	-	-	24,875	24,875
	479,216	201,167	92,953	773,336
Expenses				
Commission	156,195	74,164	45,637	275,996
Non-commission	142,077	81,626	15,089	238,792
	298,272	155,790	60,726	514,788
Earnings before undernoted	\$ 180,944	\$ 45,377	\$ 32,227	258,548
Interest expense				(28,949)
Earnings before income taxes				229,599
Income taxes				54,026
Net earnings				175,573
Perpetual preferred share dividends				2,213
Net earnings available to common shareholders				\$ 173,360

NOTE 17 SEGMENTED INFORMATION (continued)

2018

NINE MONTHS ENDED SEPTEMBER 30	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 1,101,376	\$ 531,506	\$ 60,325	\$ 1,693,207
Administration fees	235,196	74,590	13,925	323,711
Distribution fees	126,392	5,301	144,868	276,561
Net investment income and other	35,746	1,172	11,842	48,760
Proportionate share of associates' earnings	-	-	115,360	115,360
	1,498,710	612,569	346,320	2,457,599
Expenses				
Commission	467,093	221,434	137,808	826,335
Non-commission	437,671	248,198	65,821	751,690
	904,764	469,632	203,629	1,578,025
Earnings before undernoted	\$ 593,946	\$ 142,937	\$ 142,691	879,574
Interest expense				(86,057)
Premium paid on early redemption of debentures (Note 9)				(10,680)
Restructuring and other charges (Note 3)				(22,758)
Earnings before income taxes				760,079
Income taxes				166,045
Net earnings				594,034
Perpetual preferred share dividends				6,638
Net earnings available to common shareholders				\$ 587,396
Identifiable assets				
Identifiable assets	\$ 8,787,767	\$ 1,174,561	\$ 2,776,013	\$ 12,738,341
Goodwill	1,347,781	1,168,580	143,906	2,660,267
Total assets	\$ 10,135,548	\$ 2,343,141	\$ 2,919,919	\$ 15,398,608

NOTE 17 SEGMENTED INFORMATION (continued)

2017

NINE MONTHS ENDED SEPTEMBER 30	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 1,048,162	\$ 524,307	\$ 44,070	\$ 1,616,539
Administration fees	241,092	73,817	14,419	329,328
Distribution fees	145,162	5,875	138,853	289,890
Net investment income and other	45,380	(2,075)	9,561	52,866
Proportionate share of associates' earnings	-	-	77,750	77,750
	1,479,796	601,924	284,653	2,366,373
Expenses				
Commission	488,669	224,258	136,824	849,751
Non-commission	437,510	247,356	47,343	732,209
	926,179	471,614	184,167	1,581,960
Earnings before undernoted	\$ 553,617	\$ 130,310	\$ 100,486	784,413
Interest expense				(84,439)
Pension plan				50,381
Restructuring and other charges				(22,940)
Proportionate share of affiliate's provision				(5,098)
Earnings before income taxes				722,317
Income taxes				164,397
Net earnings				557,920
Perpetual preferred share dividends				6,638
Net earnings available to common shareholders				\$ 551,282
Identifiable assets	\$ 9,301,439	\$ 1,301,888	\$ 2,586,247	\$ 13,189,574
Goodwill	1,347,781	1,168,580	143,906	2,660,267
Total assets	\$ 10,649,220	\$ 2,470,468	\$ 2,730,153	\$ 15,849,841

Pargesa Holding SA

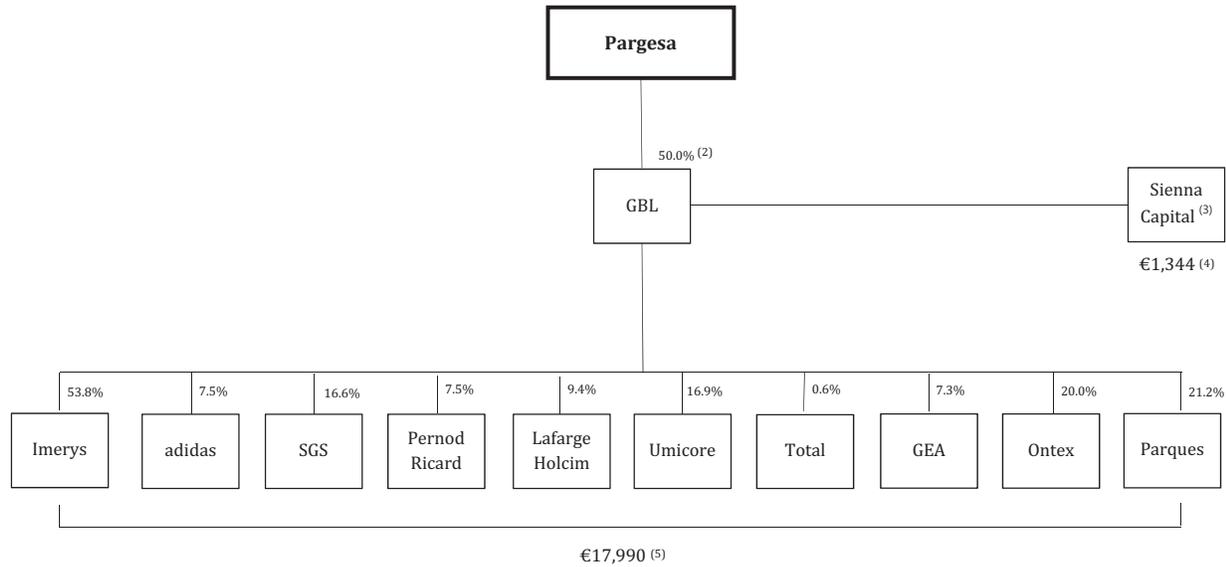
PART E

The attached document discloses information relating to the financial results of Pargesa Holding SA as issued by Pargesa Holding SA.

PARGESA HOLDING SA

Power Financial Corporation and the Frère Group of Charleroi, Belgium, each hold a 50.0% interest in Parjointco N.V., a Netherlands-based company that, at September 30, 2018, held a 55.5% interest in Pargesa Holding SA (Pargesa), the Pargesa group's parent company, representing 75.4% of the voting rights in the company. Pargesa has its head office in Geneva, Switzerland and its shares are listed on the Swiss Exchange (SIX: PARG). The Pargesa group holds interests in a limited number of large European companies.

The organization chart below reflects the group's structure at September 30, 2018⁽¹⁾:



(1) Shareholdings are expressed as a percentage of the capital held. The graph shows the main shareholdings of the portfolio.

(2) 50.7% of voting rights, taking into account the suspended voting rights related to GBL treasury shares.

(3) Comprising significant investments in private equity, debt or specific thematic funds.

(4) Estimated value in millions of euros at September 30, 2018.

(5) Market value in millions of euros of the main investments held by GBL at September 30, 2018.

At September 30, 2018, Pargesa held an interest in Groupe Bruxelles Lambert (GBL), a holding company whose head office is in Brussels, Belgium, and which is listed on the Euronext Exchange (EBR: GBLB). At the same date, the GBL portfolio was comprised of investments in the following publicly traded companies:

- Imerys (EPA: NK) – mineral-based specialty solutions for industry
- adidas (XETR: ADS) – design and distribution of sportswear
- SGS (SIX: SGSN) – testing, inspection and certification
- Pernod Ricard (EPA: RI) – wines and spirits
- LafargeHolcim (SIX: HOLN and EPA: LHN) – cement, aggregates and concrete
- Umicore (EBR: UMI) – materials technology and recycling of precious metals
- Total (EPA: FP) – oil, gas and chemical industries
- GEA (XETR: G1A) – supplier of equipment and project management for a wide range of processing industries primarily in the food and beverage sectors
- Ontex (EBR: ONTEX) – disposable hygiene products
- Parques (BME: PQR) – operation of regional leisure parks

HIGHLIGHTS

- ▶ **Preliminary remark:** It is reminded that accounting standard IFRS 9, which became effective on January 1, 2018, significantly changes the accounting treatment of non-consolidated¹ portfolio investments². Pursuant to this new standard:
 - unrealized gains (or losses) recorded until December 31, 2017 in shareholders' equity will never be recorded in the income statement;
 - according to the accounting option retained by the group (please refer to "Remark 1" further in this report), changes in fair values from January 1, 2018 onwards are recorded directly in shareholders' equity and will never be recorded in the income statement, except for changes in the fair value of those of the private equity and other investment funds that are not consolidated, which are recorded through income statement.

Therefore, the comparison of the economic operating income and net income in the nine-month period in 2018 and the corresponding period in 2017 must be analyzed in light of these accounting changes (for more details, please see "Economic presentation of Pargesa's financial results").

- ▶ As already reported, on February 8, 2018, Umicore raised €892 million through a capital increase subscribed by institutional investors and other investors. The new shares, which represent 10% of the number of outstanding shares prior to the transaction, were issued at a price of €39.80 per share. GBL participated in the capital increase by investing €144 million, which had the effect of slightly diluting its shareholding to 16.9% of Umicore's capital, compared with 17.0% prior to the transaction. At September 30, 2018, the value of GBL's investment in Umicore was €2,010 million.
- ▶ It is reminded that on April 3, 2018, GEA Group (GEA) announced that GBL had crossed on March 23, 2018 the 5.0% threshold of the voting rights of the company. At September 30, 2018, GBL held 7.3% of GEA's share capital, worth €404 million.
- ▶ Also already reported was the sale by GBL in May 2018 of 6.6% of the capital of Burberry Group PLC (Burberry). Proceeds from the disposal amounted to €566 million, and allowed GBL to realize a capital gain of €67 million (with Pargesa's share being SF40 million), which however has not been recorded in the income statement as a consequence of IFRS 9, which became effective on January 1, 2018³.
- ▶ As a reminder, on June 12, 2018, GBL announced the completion of a 7-year bond issue for €500 million, with a coupon of 1.875%. The proceeds from this issuance are used by GBL for general corporate purposes. The transaction allows GBL to lengthen its debt maturity profile, and to further diversify its financing sources.
- ▶ On October 9, 2018, GBL's convertible bond, issued on September 27, 2013, expired. Since April of this year, certain holders of bonds requested an early conversion of their bonds representing 81% of all bonds issued, the balance being reimbursed on October 9, 2018. The bonds have been redeemed, partly by the delivery of GBL treasury shares, and for the balance in cash. Following the redemption of the bonds and based on the number of bonds converted in GBL shares, Pargesa's economic interest in GBL stands at 50.7%, compared to 51.8% at December 31, 2017.
- ▶ The board of directors of GBL has authorized the company to purchase up to €250 million of its own shares, if appropriate and depending on market conditions. This authorization is valid until April 26, 2021.

¹ In this document, the term "consolidated" means full consolidation or equity accounting.

² The term "portfolio" includes the shareholdings and Sienna Capital.

³ The shareholding in Burberry was not consolidated.

► At the level of Imerys the following highlights can be disclosed:

- Imerys announced on May 17, 2018 that it had entered into an exclusivity agreement for the purpose of the sale of its roofing division Imerys Toiture for an enterprise value of €1 billion. Imerys Toiture, which mainly serves the French construction market, generated revenue of €300 million in 2017 with around 1,000 employees and 14 plants located in France. This agreement follows the strategic review conducted by Imerys' board of directors on the prospects of the Roofing division. This transaction improves Imerys growth profile through higher exposure to dynamic markets and geographies and strengthens its balance sheet. The transaction was completed on October 11, 2018 and permits Imerys, on this occasion, to realize a net capital gain of more than €700 million which will be recorded in the income statement in the fourth quarter.
- Following an in-depth market analysis, Imerys decided to withdraw from the ceramic proppants market. Imerys group is currently studying several divestiture scenarios for this business, which has a balance sheet value of approximately €150 million. Since the third quarter of 2018, costs associated with this business are recognized as restructuring costs. As a result, the annual negative contribution of the Oilfield Services division to the current operating income should be around €5 million in 2018.
- Imerys has decided to implement a care and maintenance program for its Namibian graphite assets to preserve their long-term value for a future point when market pricing allows a proper value to be achieved for this high-quality graphite product. The implementation of this program enables Imerys to preserve its mining rights and resume production once general market conditions become more favourable. These assets are accounted for on Imerys' balance sheet for a value of approximately €50 million.
- Certain subsidiaries of the Imerys group, which operate its American Talc business, are among the defendants in the actions brought before several U.S. federal and state courts by multiple plaintiffs. In these matters, the plaintiffs assert claims based on the alleged hazards related to the use of talc in certain products. Most of this litigation relates to sales made prior to Imerys' 2011 acquisition of its Talc business. There has been no material adverse development in this litigation affecting the relevant U.S. subsidiaries in this quarter. However, while these litigations continue to develop, these subsidiaries are assessing and reviewing their strategic options for best protecting their respective long-term financial interests.

► At the level of Sienna Capital, it is reminded that:

- In November 2017, Ergon Capital Partners III (ECP III) announced the signature of an agreement for the acquisition of svt Holding GmbH (svt). This German company is one of the leaders in preventive passive fire protection. The acquisition was finalized in January 2018. In February 2018, svt signed an agreement to acquire Rolf Kuhn GmbH. Through this transaction, which was completed in April, svt becomes a major European actor in fire protection.
- In September 2017, a group of investors announced that they had entered into exclusive negotiations with Sagard 3 and Alvest's management team to acquire a significant stake in this company, the global leader in the production and distribution of airport ground support equipment. At December 31, 2017, the unrealized gain on this investment then recorded in the revaluation reserve in shareholders' equity amounted to SF34 million (Pargesa's share). The transaction was finalized in January 2018, and Sagard 3 reinvested in the capital of the company. Sagard 3 is a non-consolidated fund, thus as per the new accounting standard IFRS 9, the SF34 million gain was not recorded in the income statement, and remains recorded in shareholders' equity.
- In November 2017, the shareholders (including Sagard II) of Kiloutou, one of the European leaders in rental construction equipment, entered into exclusive negotiations for the sale of a majority shareholding position in the company. At December 31, 2017, the unrealized gain on this investment then recorded in shareholders' equity (in the revaluation reserve) amounted to SF23 million (Pargesa's share). The transaction was finalized in February 2018. Sagard II is a non-consolidated fund, thus for the same reasons as mentioned above, the SF23 million gain was not recorded in the income statement, and remains recorded in shareholders' equity.
- In January 2018, Sagard 3 completed the acquisition of a majority stake in Climater, one of the leading French firms in climatic engineering (installation and maintenance of air conditioning, heating and ventilation systems in buildings).
- In July 2018, GBL, through its subsidiary Sienna Capital, realized its first co-investment transaction by investing €250 million, alongside funds affiliated with the investment company KKR, in Upfield (previously named Flora Food Group), the carve-out of Unilever's Spreads division. Upfield is the world leader in plant-based margarine spreads and cooking products. It is currently established in 69 countries and generated pro forma sales of around €3 billion in 2017.
- During the third quarter of 2018, ECP III finalized the acquisition of Beltaste-Vanreusel, a Belgian manufacturer of frozen food products and supplier of fast food restaurants, and Indo, the Spanish leader in the manufacture and distribution of ophthalmic lenses and ophthalmic diagnostic equipment.

At September 30, 2018, GBL's commitments with respect to Sienna Capital amounted to €553 million (€733 million at December 31, 2017).

PRESENTATION OF RESULTS IN ACCORDANCE WITH IFRS

The simplified income statement in accordance with IFRS is as follows:

[in millions of Swiss francs] [unaudited]	SEPTEMBER 30, 2018	SEPTEMBER 30, 2017
Operating income	4,685.2	3,791.7
Operating expenses	(4,255.8)	(3,416.9)
Other income and expenses	4.2	267.6
Operating profit	433.6	642.4
Dividends and interest from long-term investments	363.9	337.0
Other financial income and expenses	(84.1)	(100.2)
Taxes	(126.0)	(106.6)
Income from associates and joint ventures	26.0	25.5
Net profit from continuing operations	613.4	798.1
Net profit from discontinued operations	56.2	53.3
Consolidated net profit [before non-controlling interests]	669.6	851.4
Attributable to non-controlling interests	(418.3)	(502.9)
Attributable to Pargesa shareholders [group share]	251.3	348.5
<i>Basic earnings per share attributable to Pargesa shareholders [SF]</i>	<i>2.97</i>	<i>4.12</i>
Average number of shares [in thousands]	84,680	84,660
€/SF average exchange rate	1.161	1.095

Operating income and expenses are primarily the revenues and operating expenses of Imerys, whose accounts are fully consolidated.

Other income and expenses include net capital gains and losses as well as impairments and reversals of previous impairments on certain group shareholdings⁴ and operations. As mentioned in previous reports this year, pursuant to new accounting standard IFRS 9 the gains resulting from the sale in the first quarter of 2018 of the investments in Kiloutou and Alvest held by the non-consolidated funds Sagard II and Sagard 3, respectively, (which amounted to SF102 million in aggregate, including the portion attributable to non-controlling interests), as well as from the sale by GBL in the second quarter of 2018 of its investment in Burberry (SF79 million, including the portion attributable to non-controlling interests), have not been recorded in the income statement and remain recorded in shareholders' equity. At September 30, 2017, this item included the gain realized by ECP III from the sale of its investments in Golden Goose and ELITech (SF263 million).

The dividends and interest from long-term investments item comprises the net dividends recorded by the group from its non-consolidated investments.

The other financial income and expenses and taxes items include Pargesa's, GBL's and Imerys' figures. Other financial income and expenses includes the non-cash impact of GBL's derivative financial instruments being marked to market.

Income from associates and joint ventures represents the share of the consolidated net profit contributed by shareholdings accounted for in the Pargesa financial statements using the equity method. These shareholdings are primarily held by GBL (Parques, starting in 2018), Sienna Capital or Imerys.

The net profit from discontinued operations represents the contribution from Imerys' Roofing division.

The item non-controlling interests mainly relates to the share of income attributable to the minority shareholders of GBL and Imerys, these two companies being fully consolidated into Pargesa's financial statements.

⁴ With respect to non-consolidated portfolio investments and the application of IFRS 9, please refer to the comments in the section "Economic presentation of Pargesa's financial results" ("Remarks").

ECONOMIC PRESENTATION OF PARGESA'S FINANCIAL RESULTS

In addition to the accounts drawn up in accordance with IFRS, Pargesa publishes an economic presentation of its results, in order to provide continuous information over the long term about the contribution of each of the shareholdings within the portfolio on one hand, of the holding activities on the other hand, to its results (group share). Since IFRS require different accounting treatments depending on the group's percentage holding in each of its investments (full integration of GBL, Imerys and certain funds, equity accounting method for Parques since the end of 2017, as well as for certain other funds, notably), the analysis of the evolution of these contributions from the consolidated accounts presented in accordance with IFRS may sometimes be difficult to achieve.

The economic presentation is intended to illustrate in an analytical approach the origin of the formation of Pargesa's consolidated result (group share), and more specifically, on one hand, the contribution of the various components of the portfolio (Pargesa's share), and, on the other hand, the contribution from holding companies' activities (Pargesa and its share of GBL's holding activities).

The analysis also draws a distinction between the operating and non-operating items in the income, the non-operating part including in particular net capital gains and restructuring charges and impairments or reversals of previous impairments as well as any losses in connection with disposals. However, as already mentioned this year:

- ▶ Net capital gains or losses resulting from the sale of non-consolidated shareholdings within the portfolio are, from January 1, 2018, recorded directly in shareholders' equity, without flowing through the income statement (see the section "Remarks" below);
- ▶ Net results from disposals or impairments recorded by private equity and other investment funds which are consolidated, as well as changes in fair value since January 1, 2018 for those of the funds which are not consolidated (see "Remark 1" below), are included in operating income due to the business model of this asset class.

Per this presentation:

- ▶ the economic operating income highlights⁵:
 - the contribution of the portfolio's shareholdings to Pargesa's economic operating income, which is constituted of Pargesa's share in the operating income of such shareholdings which are fully consolidated (Imerys) or consolidated using the equity method (Parques, from 2018)⁶, as well as in the dividends paid by the non-consolidated shareholdings. Imerys' operating income corresponds to the sum of Imerys' "Net income from current operations, group share" as presented by the company in its financial communication, and the contribution from its Roofing division, which is presented as discontinued operations in 2018. With respect to Parques, operating income corresponds to net income before non-recurring items and impairments, as identified by the company;
 - the net contribution from private equity and other investment funds activities (combined under Sienna Capital at GBL). As per new accounting standard IFRS 9, from January 1, 2018 onward the contribution from those of the funds which are not consolidated includes changes in their fair value during the period (instead of net results from disposals or impairments or reversals of previous impairments, until December 31, 2017);
 - the impact of net financial income (or expenses) and general expenses and income taxes of the holding companies.

⁵ Note: at the level of the economic operating income, the contributions of the shareholdings as well as from the private equity and other investment funds activities are all set on the same level since the end of 2017 ("Contribution from the portfolio to operating income").

⁶ The contribution recorded by Pargesa at September 30, 2018 represents Pargesa's share of Parques' results for the six-month period ended June 30, 2018 since Parques will report its 2018 nine-month results only after those of Pargesa. The contribution of the third quarter 2018 will be included in the annual group results.

▶ Non-operating income includes:

- on one hand, Pargesa's share of non-operating items from shareholdings that are fully consolidated (Imerys, for which non-operating income corresponds to "Other operating income and expenses", as presented by the company in its financial communication) or consolidated using the equity method (Parques, from 2018, for which non-operating income corresponds to non-recurring items and/or impairments, as identified by the company)⁷; and
- on the other hand, non-operating income generated at the level of the holding companies (Pargesa and its share of the non-operating income of GBL). It must be noted, however, that pursuant to IFRS 9, from 2018 onwards, in case of a disposal of shares of a non-consolidated portfolio shareholding, no gain or loss will impact the income statement, and that the income statement will no longer record any impairment charge with respect to non-consolidated portfolio shareholdings (see "Remarks" below).

▶ The sum of economic operating income and non-operating income corresponds to the net income (group share), as per the IFRS consolidated financial statements.

Remarks:

1) As explained in the previous reports on results in 2018, accounting standard IFRS 9, which came into effect on January 1, 2018, notably modifies the accounting treatment of changes in the fair value of the shareholdings which are not fully consolidated or equity accounted for (which currently constitute the majority of the group's portfolio), and of changes in the fair value of the non-consolidated funds.

It is reminded that these investments are valued in the balance sheet at their fair value (being the market value for listed securities), the variations of which until December 31, 2017 were recorded in the revaluation reserve, which forms part of the shareholders' equity. As a result, these changes in value did not impact the profit and loss account except in the following cases:

- in case of a disposal: changes in fair value previously recorded in shareholders' equity since the time of acquisition were then recorded in the income statement, or
- in the event of an impairment: the (negative) change in fair value since the acquisition was recorded through income statement (the same treatment applied to any additional negative variation) without the possibility of reversal (except in the case of a disposal).

As from January 1, 2018, these investments will continue to be recorded at fair value in the balance sheet. However, changes in fair value recorded until December 31, 2017 in the revaluation reserve in shareholders' equity will never flow through income. Changes in fair value from January 1, 2018 are recorded, at the option of the company:

- either systematically through income statement: every positive or negative change during the period in the market value of listed non-consolidated shareholdings (or in the fair value in the case of non-consolidated unlisted investments) therefore directly impacts the income statement;
- or in shareholders' equity: every positive or negative change in the market value of listed non-consolidated shareholdings (or in the fair value in the case of non-consolidated unlisted investments) impacts the consolidated reserves, the corresponding amounts never being recycled in the income statement, even in the case of a disposal. Moreover, non-consolidated investments will no longer be subject to impairments recorded through income statement.

⁷ The contribution recorded by Pargesa at September 30, 2018 represents Pargesa's share of Parques' results for the six-month period ended June 30, 2018 since Parques will report its 2018 nine-month results only after those of Pargesa. The contribution of the third quarter 2018 will be included in the annual group results.

It should be noted that this choice can be made (i) globally for all the non-consolidated investments or (ii) individually.

The group has opted for the method of recording changes in fair value of the main non-consolidated shareholdings within the portfolio⁸ via shareholders' equity, while changes in the fair value of those of the funds that are not consolidated are recorded in the income statement. Therefore, non-operating income should no longer record, as from the 2018 financial year, any gain or loss on disposal or impairment charge on non-consolidated shareholdings for which the option for the method of recording changes in fair value through shareholders' equity has been retained.

In addition, the contribution from non-consolidated shareholdings to the economic operating income will continue to be constituted by the dividends.

- 2) As mentioned in the previous reports issued in 2018, it was decided to no longer make a distinction between "Strategic" investments and "Incubator" investments in the economic presentation of Pargesa's results. Furthermore, it was also decided to present in the operating income the contributions from the participations and the contribution from private equity and other funds activities under the same heading entitled "Contribution from the portfolio to operating income". In the table below, the presentation of the economic results at September 30, 2017 has therefore been restated accordingly.⁹

⁸ This option currently involves the following shareholdings: adidas, SGS, Pernod Ricard, LafargeHolcim, Umicore, Total, GEA and Ontex (the shareholding in Burberry was sold in May 2018). Parques is accounted for using the equity method since the end of 2017.

⁹ The contribution (dividends) from shareholdings previously included in the "Incubator" portfolio appeared under the heading "Other operating income from holding company activities".

According to this approach, the economic results at September 30, 2018 can be analyzed as follows:

[in millions of Swiss francs] [unaudited]	SEPTEMBER 30, 2018	SEPTEMBER 30, 2017
Contribution from the portfolio to operating income		
Consolidated shareholdings (full consolidation or equity accounting):		
Imerys	100.0	90.3
Parques	(3.2)	-
Non-consolidated shareholdings:		
LafargeHolcim	58.0	59.7
SGS	49.6	45.9
adidas	20.7	14.9
Umicore	17.9	14.4
Total	15.6	15.2
Pernod Ricard	12.0	10.4
GEA	6.0	1.2
Ontex	5.9	5.0
Burberry	-	3.1
Parques	-	1.7
Other	1.9	0.2
Contribution from private equity and other funds	20.4	123.7
Contribution from the portfolio to operating income	304.8	385.7
<i>per share [SF]</i>	<i>3.60</i>	<i>4.56</i>
Net financial income and expenses	(20.9)	(14.5)
General expenses and taxes	(24.1)	(23.1)
Economic operating income	259.8	348.1
<i>per share [SF]</i>	<i>3.07</i>	<i>4.11</i>
Non-operating loss from consolidated shareholdings	(8.0)	(7.8)
Non-operating income (loss) from holding company activities	(0.5)	8.2
Net income	251.3	348.5
<i>per share [SF]</i>	<i>2.97</i>	<i>4.12</i>
Average number of shares [in thousands]	84,680	84,660
€/SF average exchange rate	1.161	1.095

Most income comes from GBL, whose results are denominated in euros. In the nine-month period in 2018, the average €/SF exchange rate was 1.161, compared with 1.095 in the corresponding period in 2017, an increase of 6.0%. Furthermore, following the early conversion since the beginning of 2018 of convertible bonds issued by GBL (please refer to the “Highlights” section above), Pargesa’s share of GBL’s earnings (excluding the portion attributable to non-controlling shareholders) stands at 50.7% at September 30, 2018, compared with 51.8% at September 30, 2017.

CONSOLIDATED HOLDINGS (full consolidation or equity accounting)

Imerys

Imerys (which is fully consolidated) reported net income from current operations (group share) of €266 million at September 30, 2018, excluding the contribution from its Roofing division, presented as discontinued operations. Including this contribution (€48 million), Imerys' net operating income as defined by Pargesa amounts to €314 million, compared with €293 million at September 30, 2017 (+7.5%). Including the effect of the strengthening of the average €/SF exchange rate, Pargesa's share of Imerys' net income from current operations, in Swiss franc terms, was SF100.0 million at September 30, 2018, compared with SF90.3 million at September 30, 2017, an increase of 10.7%. After taking into account "Other operating income and expenses" of -€24 million net of taxes,¹⁰ Imerys' net income was €290 million at September 30, 2018. At September 30, 2017, Imerys' net income amounted to €268 million after taking into account "Other operating income and expenses" of -€25 million net of taxes).

Parques

Parques was acquired in 2017 and is accounted for using the equity method since the end of 2017. The company's financial year ends on September 30. The contribution recorded by Pargesa at September 30, 2018 represents Pargesa's share of Parques' results for the six-month period ended June 30, 2018 since Parques will report its nine-month 2018 results only after those of Pargesa. The contribution of the third quarter will be included in the annual group results.

For the six-month period ended June 30, 2018, Parques' operating income (see definition above) stood at -€25 million reflecting in particular the seasonal nature of the company's activities. Pargesa's share of Parques' operating income thus came in at -SF3.2 million. After taking into consideration non-recurring items and/or impairments¹¹, Parques' net income came in at -€28 million for the period.

NON-CONSOLIDATED HOLDINGS

The contributions from LafargeHolcim, SGS, adidas, Umicore, Total, Pernod Ricard, GEA, Ontex, Burberry (shareholding sold in May 2018) and Parques (at September 30, 2017, when this investment was not yet accounted for using the equity method) represent Pargesa's share of net dividends recorded by GBL. The contribution from non-consolidated shareholdings was SF187.6 million at September 30, 2018, compared with SF171.7 million at September 30, 2017.

LafargeHolcim

The contribution from LafargeHolcim was SF58.0 million at September 30, 2018, compared with SF59.7 million at September 30, 2017. The company paid in 2018 a dividend of SF2.00 per share, the same amount as in 2017. The variance in the contribution reflects notably the impact of the evolution of the SF/€ exchange rate between 2017 and 2018, at the time when GBL recorded the dividend from LafargeHolcim.

SGS

The contribution from SGS came in at SF49.6 million at September 30, 2018, compared with SF45.9 million for the corresponding period in 2017. The increase in the contribution year-over-year primarily results from the increase in the dividend per share paid by SGS (SF75 compared with SF70 in 2017, up 7.1%).

adidas

The contribution from adidas was SF20.7 million at September 30, 2018, compared with SF14.9 at September 30, 2017. The increase in the contribution reflects the increase in the dividend per share paid by the company (€2.60 vs €2.00 in 2017, or +30%), as well as the increase in the €/SF exchange rate.

¹⁰ As explained earlier in this report, in the economic presentation of results, Pargesa's share of "Other operating income and expenses" recorded by Imerys appears under "Non-operating loss from consolidated shareholdings".

¹¹ Pargesa's share of Parques' non-recurring items and/or impairments also appears under "Non-operating income (loss) from consolidated shareholdings".

Umicore

The contribution from Umicore came in at SF17.9 million at September 30, 2018 (compared with SF14.4 million at September 30, 2017), and represents the final dividend payment related to 2017, or €0.375 per share, up 7.1% from the corresponding amount at September 30, 2017 (€0.35 per share) as well as the interim dividend related to the current financial year of €0.35 per share compared with €0.325 per share in 2017 (+7.7%). The increase in Umicore's contribution also reflects the stronger €/SF average exchange rate, as well as the higher number of shares held by GBL resulting from its participation in the capital increase launched by Umicore in February 2018.

Total

The contribution from Total was SF15.6 million at September 30, 2018, compared with SF15.2 million at September 30, 2017. The final dividend related to 2017 and the first two interim dividends for 2018 respectively amounted to €0.62 per share for the final dividend and €0.64 per share for the two interim dividends, respectively (the corresponding amounts in 2017 were €0.62 per share each).

Pernod Ricard

Pernod Ricard declared an interim dividend of €1.01 per share in the first half of 2018, compared with €0.94 per share in the corresponding period of 2017. Including the impact of a stronger €/SF exchange rate, Pernod Ricard's contribution for the nine-month period ended September 30, 2018 came in at SF12.0 million, compared with SF10.4 million at September 30, 2017. The board of directors of Pernod Ricard will propose at the next annual general meeting to be held on November 21, 2018, to distribute a dividend of €2.36 per share for the full 2017-2018 financial year, compared with €2.02 per share for the 2016-2017 financial year, an increase of 16.8%. The balance would thereafter amount to €1.35 per share (payable during the fourth quarter of 2018) compared with a balance of €1.08 for the previous year.

GEA

The contribution from GEA was SF6.0 million at September 30, 2018, compared with SF1.2 million at September 30, 2017, reflecting the increase in the dividend per share paid by the company (€0.85 per share in 2018, compared with €0.80 per share in 2017, an increase of 6.3%), the strengthening of the €/SF exchange rate, and the additional investments in GEA made by GBL in the second half of 2017 and in 2018.

Ontex

The contribution from Ontex was SF5.9 million at September 30, 2018, compared with SF5.0 million at September 30, 2017. Ontex paid an annual dividend of €0.60 per share in 2018, compared with €0.55 per share in the previous year (+9.1%). The increase in the contribution also reflects the positive evolution of the €/SF exchange rate.

Burberry

Following the sale of Burberry in May 2018, this shareholding no longer contributes to the income statement in 2018. At September 30, 2017, Pargesa's share of the dividend from Burberry recorded by GBL amounted to SF3.1 million. It is reminded that, pursuant to IFRS 9 (please refer to the "Non-operating income" section hereafter), the gain resulting from the sale by GBL of its investment in Burberry has not been recorded in the income statement, but directly in shareholders' equity.

Parques

As mentioned earlier in this report, the contribution to economic operating income from Parques, which is accounted for using the equity method since the end of 2017, now represents Pargesa's share of the company's operating income, whereas in 2017 the contribution represented Pargesa's share of the dividend paid by the company (at September 30, 2017, Pargesa's share of the dividend from Parques amounted to SF1.7 million).

CONTRIBUTIONS FROM PRIVATE EQUITY AND OTHER FUNDS

The contribution from private equity and other investment fund activities comes primarily from the funds held by GBL through its subsidiary Sienna Capital, and also includes general expenses and management fees. At September 30, 2018, the net contribution from these activities came in at SF20.4 million, including a contribution from consolidated funds for SF5.9 million as well as, from January 1, 2018, changes in the fair value during the period for the funds that are not fully consolidated or equity accounted for, which amounted to SF14.8 million (application of IFRS 9 – see above). It is reminded that, also pursuant to IFRS 9, the unrealized gains recorded in shareholders' equity at December 31, 2017 with respect to the investments in Kiloutou and Alvest held by Sagard II and Sagard 3, respectively (Pargesa's share: SF57 million in aggregate), was not recorded in the income statement at the time of the disposal of these two investments in the first quarter of 2018, and remain recorded in shareholders' equity.

At September 30, 2017, the contribution from these activities came in at SF123.7 million, and included Pargesa's share of the gain recorded by ECP III from the sale of its investment in Golden Goose (€112 million at the level of GBL, with Pargesa's share being SF63.4 million) and in ELITech (€104 million at the level of GBL, with Pargesa's share being SF59.3 million) as well as the contributions from Kartesia (SF9.5 million) and Mérieux Participations II (SF2.3 million).

NET FINANCIAL INCOME AND EXPENSES

Net financial income and expenses, which include interest income and expenses, as well as other financial income and expenses, amounted to -SF20.9 million at September 30, 2018, compared with -SF14.5 million at September 30, 2017. Interest income and expenses recorded by Pargesa as well as its share of those recorded by GBL represented -SF10.3 million at September 30, 2018, compared with -SF15.7 million at September 30, 2017. Other financial income and expenses include in particular:

- ▶ the impact of the marking to market, at the end of each period, of the derivative instruments implicitly embedded in the outstanding convertible bonds issued by GBL. Pargesa's share of this impact was SF7.1 million at September 30, 2018, compared with -SF5.9 million at September 30, 2017;
- ▶ Pargesa's share of the realized and unrealized results recorded by GBL from trading activities (including dividends) and from derivatives used in managing its portfolio. Pargesa's share of results from these activities was -SF2.3 million at September 30, 2018, compared with SF14.8 million at September 30, 2017.

Net financial income and expenses also included at September 30, 2017 the net -SF4.4 million impact resulting from the cancellation of the derivatives embedded in the balance of the bonds exchangeable for Engie shares redeemed at maturity by GBL in February 2017.

GENERAL EXPENSES AND TAXES

The general expenses and taxes line item represents Pargesa's own general expenses and taxes as well as its share of those of GBL.

NON-OPERATING INCOME (LOSS)

Non-operating income from consolidated shareholdings includes Pargesa's share of Imerys' "Other operating income and expenses", which, as indicated above, amounted to -€24 million at September 30, 2018 (-€25 million at September 30, 2017). It also includes Pargesa's share of non-recurring items and/or impairments recorded by Parques during the period (-€3 million for the six-month period ended June 30, 2018, see footnote 6).

The net non-operating income from holding company activities amounted to -SF0.5 million at September 30, 2018. It is reminded that, pursuant to IFRS 9 (please refer to "Remark 1" above), the gain resulting from the sale by GBL of its investment in Burberry in May 2018 (Pargesa's share: SF40 million) has not been recorded in the income statement, but directly in shareholders' equity. Furthermore, the concept of impairment on investments previously classified as available-for-sale financial assets under IAS 39 is no longer applicable under IFRS 9. Under IAS 39, an impairment of €152 million would have been accounted for on the investment in Ontex (Pargesa's share: SF89 million).

At September 30, 2017, the net non-operating income from holding company activities amounted to SF8.2 million, and included in particular the impact of the redemption at maturity of the balance of the bonds exchangeable for Engie shares.

NET ASSET VALUE

The table here below offers a detailed view of Pargesa's net asset value (on a flow-through basis) at September 30, 2018. The net asset value is calculated by taking, on one hand, the assets and liabilities of Pargesa (excluding Pargesa's participation in GBL) and, on the other hand, Pargesa's share in the value of the portfolio, the net cash or net debt position and the other assets and liabilities of GBL. The net asset value is calculated based on current market values and exchange rates for the listed shareholdings, and on the fair value and current exchange rates for private equity and other investment funds (Sienna Capital).

Pargesa's net asset value per share was SF126.6 at September 30, 2018, a slight decrease (-1.2%) compared with the level at the end of 2017 (SF128.2). It is broken down as follows:

Net asset value of Pargesa				SEPTEMBER 30, 2018		DECEMBER 31, 2017
[in millions of Swiss francs, except as otherwise noted] [unaudited]	% OF CAPITAL ⁽¹⁾	% OF ECONOMIC INTEREST ⁽¹⁾	SHARE PRICE & CURRENCY	FLOW-THROUGH VALUE	WEIGHTING AS A % OF TOTAL	FLOW-THROUGH VALUE
Listed companies:						
adidas	7.5	3.8	210.9 €	1,873	17	1,535
SGS	16.6	8.3	2,584 SF	1,637	15	1,610
Pernod Ricard	7.5	3.8	141.3 €	1,590	15	1,536
Imerys	53.8	26.9	63.6 €	1,542	14	1,969
LafargeHolcim	9.4	4.7	42.5 €	1,377	13	1,575
Umicore	16.9	8.5	48.2 €	1,137	11	880
Total	0.6	0.3	55.8 €	512	5	436
GEA	7.3	3.7	30.7 €	228	2	192
Ontex	20.0	10.0	18.4 €	171	2	265
Parques	21.2	10.6	11.5 €	111	1	149
Burberry				-	-	326
Other				136	2	-
Other investments:						
Sienna Capital				761	7	542
Other Pargesa				24	-	37
Total portfolio				11,099	104	11,052
GBL treasury assets				114	1	296
Net cash (debt) ⁽²⁾				(490)	(5)	(497)
Net asset value				10,723	100	10,851
<i>Net asset value per share</i>				126.6		128.2
<i>Share price Pargesa</i>				78.9		84.5
€/SF exchange rate				1.132		1.170

⁽¹⁾ The % of capital represents the % of capital held by GBL in the shareholdings; the % of economic interest represents Pargesa's share (50%) of the % of capital held by GBL.

⁽²⁾ This item includes also Pargesa's share in the market value of GBL's trading portfolio.

The net asset value is published on a weekly basis on the company's website. It was SF114.3 per share on October 26, 2018.

Pargesa's share price stood at SF78.9 on September 30, 2018, compared with SF84.5 at the end of 2017, a decline of 6.7%. At October 26, 2018, the share price closed at SF69.4.