

GREAT-WEST
LIFECO INC.

Quarterly Report to Shareholders

Second Quarter Results

For the period ended June 30, 2019

Quarterly Report to Shareholders

For cautionary notes regarding forward-looking information and non-IFRS financial measures, see page 4.

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QUARTERLY REPORT TO THE SHAREHOLDERS

January 1 to June 30, 2019 Six Months Results

The condensed consolidated interim unaudited financial statements including notes at June 30, 2019 were approved by the Board of Directors at a meeting held today in Toronto.

Great-West Lifeco Inc. (Lifeco or the Company) today announced net earnings attributable to common shareholders (net earnings) of \$459 million or \$0.49 per common share for the second quarter of 2019 compared to \$831 million or \$0.84 per common share for the same quarter last year. Lifeco's net earnings for the second quarter of 2019 included a net charge of \$199 million relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business, which reduced earnings per common share by \$0.21.

Adjusted net earnings, which exclude this charge, were \$658 million or \$0.70 per common share. Adjusted net earnings in the second quarter of 2019 decreased \$173 million from the prior year reflecting lower contributions from insurance contract liability basis changes and the impact of U.K. retail related investment impairments. In addition, Lifeco's net earnings for the second quarter of 2018 included a net positive impact of \$60 million, or \$0.06 per common share, arising from refinancing in the U.S. segment.

Highlights

Sales up \$1.2 billion to \$34.3 billion

- Sales for the second quarter of 2019 were \$34.3 billion, up 4% from the second quarter of 2018, primarily driven by higher sales in Europe.

U.S. Individual Markets business sale closed on June 1, 2019

- On June 1, 2019, the Company's subsidiary, Great-West Life & Annuity, completed the sale, via indemnity reinsurance, of substantially all of its individual life insurance and annuity business to Protective Life Insurance Company (Protective Life). The transaction value of \$1.6 billion frees up capital and allows the Company to focus on the defined contribution retirement and asset management markets in the U.S. segment.

Capital strength and financial flexibility maintained

- On April 17, 2019, the Company purchased and subsequently cancelled 59,700,974 common shares under a substantial issuer bid at a price of \$33.50 per share for an aggregate purchase price of \$2 billion. The excess paid over the average carrying value under the Offer was \$1,628 million and was recognized as a reduction to accumulated surplus.
- The Great-West Life Assurance Company reported a Life Insurance Capital Adequacy Test (LICAT) ratio of 136% at June 30, 2019 which includes a 6 percent reduction related to the impact of the substantial issuer bid.
- Adjusted return on equity, which excludes the net charge of \$199 million relating to the U.S. sale, was 13.2% for the second quarter of 2019.

SEGMENTED OPERATING RESULTS

For reporting purposes, Lifeco's consolidated operating results are grouped into four reportable segments – Canada, United States, Europe and Lifeco Corporate – reflecting geographic lines as well as the management and corporate structure of the Company. For more information, please refer to the Company's 2019 second quarter Management's Discussion and Analysis (MD&A).

CANADA

- **Q2 Canada segment net earnings of \$280 million** – Net earnings for the second quarter of 2019 were \$280 million compared to \$334 million in the second quarter of 2018, a decrease of 16%. The decrease was primarily due to large contributions from insurance contract liability basis changes in 2018 that did not recur. This was partially offset by strong investment results in the second quarter of 2019.
- **Plans to proceed with amalgamation of Great-West Life, London Life and Canada Life announced** – On July 19, 2019, the Company announced that the Boards of Directors of its three Canadian life insurance companies, The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., have approved plans to proceed with the amalgamation of these five entities into one company: The Canada Life Assurance Company. Subject to regulatory and policyholder approval, the amalgamation is expected to be completed by January 1, 2020. Special meetings of policyholders of each of the three amalgamating life insurance companies will be called and policyholders will receive an information circular providing background and describing the expected benefits of the amalgamation. Upon approval, the companies will be combined into one single life insurance company operating under The Canada Life Assurance Company name. Lifeco will remain the parent company, and the amalgamated company will retain all of the amalgamating companies' current corporate office locations.

UNITED STATES

- **Sale of U.S. individual life insurance and annuity business** – On June 1, 2019, the Company's subsidiary, Great-West Life & Annuity, completed the sale, via indemnity reinsurance, of substantially all of its individual life insurance and annuity business to Protective Life who now assumes the economics and risks associated with the reinsured business. The transaction resulted in an after-tax transaction value of approximately \$1.6 billion excluding one-time expenses. The transaction value includes a ceding commission of \$1,080 million and a capital release of approximately \$530 million. The Company recognized a loss related to this transaction of \$199 million (US\$148 million), which included transaction costs of \$63 million (US\$47 million) and \$36 million (US\$27 million) due to updated expense assumptions primarily related to stranded overhead.
- **Q2 U.S. segment adjusted net earnings of US\$75 million** – Excluding the net charge on the sale, adjusted net earnings for the second quarter of 2019 were US\$75 million, down 29%, compared to net earnings of US\$105 million in the second quarter of 2018. Included in net earnings in the second quarter of 2018 was the net positive impact of US\$39 million related to U.S. debt refinancing activity. Excluding this item, U.S. segment net earnings increased US\$9 million primarily due to improved Putnam net earnings driven by reductions in operating expenses and an increase in net investment income on seed capital.
- **Q2 Empower fee and other income up 6%** – Fee and other income for the three months ended June 30, 2019 was US\$264 million compared to US\$248 million for the same quarter last year, an increase of 6%, due to growth in Empower Retirement participants and assets.

EUROPE

- **Q2 Europe segment net earnings of \$282 million** – Net earnings for the second quarter of 2019 were \$282 million, down 21% compared to net earnings of \$355 million in the second quarter of 2018, mainly due to lower contributions from insurance contract liability basis changes and lower contributions from investment experience primarily driven by U.K. retail related investment losses partly offset by the favourable impact of new business from U.K. bulk annuity sales.
- **Q2 Europe segment sales up 29%** – Europe sales in the second quarter of 2019 of \$7.1 billion were up 29% from the second quarter of 2018, primarily due to strong Ireland fund management sales and U.K. bulk annuity sales.
- **U.K. operations advance transformation activities** – The U.K. operations made progress on the previously announced targeted annual expense reductions of £20 million pre-tax by the end of the fourth quarter of 2020. Annualized savings achieved to June 30, 2019 on the U.K. restructuring program were £10 million pre-tax compared to £3 million pre-tax at December 31, 2018.

QUARTERLY DIVIDENDS

The Board of Directors approved a quarterly dividend of \$0.4130 per share on the common shares of Lifeco payable September 30, 2019 to shareholders of record at the close of business August 30, 2019.

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

First Preferred Shares	Record Date	Payment Date	Amount, per share
Series F	August 30, 2019	September 30, 2019	\$0.36875
Series G	August 30, 2019	September 30, 2019	\$0.3250
Series H	August 30, 2019	September 30, 2019	\$0.30313
Series I	August 30, 2019	September 30, 2019	\$0.28125
Series L	August 30, 2019	September 30, 2019	\$0.353125
Series M	August 30, 2019	September 30, 2019	\$0.3625
Series N	August 30, 2019	September 30, 2019	\$0.1360
Series O	August 30, 2019	September 30, 2019	\$0.188223
Series P	August 30, 2019	September 30, 2019	\$0.3375
Series Q	August 30, 2019	September 30, 2019	\$0.321875
Series R	August 30, 2019	September 30, 2019	\$0.3000
Series S	August 30, 2019	September 30, 2019	\$0.328125
Series T	August 30, 2019	September 30, 2019	\$0.321875

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



P. A. Mahon
President and Chief Executive Officer

July 30, 2019

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED JUNE 30, 2019
DATED: JULY 30, 2019**

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, financial performance and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three and six months ended June 30, 2019 and includes a comparison to the corresponding periods in 2018, to the three months ended March 31, 2019, and to the Company's financial condition as at December 31, 2018. This MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's three major reportable segments: Canada, United States (U.S.) and Europe.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The condensed consolidated interim unaudited financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and are presented in millions of Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2019. Also refer to the 2018 Annual MD&A and audited consolidated financial statements in the Company's 2018 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 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, expected capital management activities and use of capital 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 2018 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 net earnings (US\$)", "adjusted net earnings per common share", "adjusted return on equity", "core net earnings", "constant currency basis", "impact of currency movement", "premiums and deposits", "pre-tax operating margin", "return on equity - adjusted net earnings", "sales", "assets under management" and "assets under administration". 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 six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Earnings					
Net earnings - common shareholders	\$ 459	\$ 657	\$ 831	\$ 1,116	\$ 1,562
Adjustments ⁽¹⁾⁽⁸⁾	199	—	—	199	—
Adjusted net earnings - common shareholders ⁽¹⁾	658	657	831	1,315	1,562
Per common share					
Basic earnings	0.489	0.665	0.839	1.159	1.579
Adjusted basic earnings, excluding adjustments ⁽¹⁾	0.701	0.665	0.839	1.365	1.579
Dividends paid	0.413	0.413	0.389	0.826	0.778
Book value	20.84	22.07	21.22		
Return on common shareholders' equity⁽²⁾					
Net earnings	12.0%	13.5%	12.5%		
Adjusted net earnings ⁽³⁾	13.2%	13.7%	14.2%		
Premiums and deposits					
Net premium income (Life insurance, guaranteed annuities and insured health products) ⁽⁸⁾	\$ (3,887)	\$ 9,595	\$ 7,905	\$ 5,708	\$ 16,079
Policyholder deposits (Segregated funds):					
Individual products	3,723	3,632	4,142	7,355	8,130
Group products	1,732	2,094	1,954	3,826	4,376
Premiums and deposits reported in the financial statements	1,568	15,321	14,001	16,889	28,585
Self-funded premium equivalents (Administrative services only contracts) ⁽⁴⁾	830	811	774	1,641	1,522
Proprietary mutual funds and institutional deposits ⁽⁴⁾	17,993	24,713	19,196	42,706	36,990
Add back: U.S. Individual Insurance & Annuity Business - initial reinsurance ceded premiums ⁽⁸⁾	13,889	—	—	13,889	—
Total premiums and deposits⁽⁴⁾	34,280	40,845	33,971	75,125	67,097
Fee and other income⁽⁸⁾	2,591	1,479	1,483	4,070	2,916
Net policyholder benefits, dividends and experience refunds	8,957	8,987	7,588	17,944	15,417
Total assets per financial statements	\$ 441,897	\$ 442,492	\$ 430,695		
Proprietary mutual funds and institutional net assets ⁽⁵⁾	305,252	304,230	294,890		
Total assets under management⁽⁵⁾	747,149	746,722	725,585		
Other assets under administration ⁽⁶⁾	820,808	804,202	697,680		
Total assets under administration	\$1,567,957	\$1,550,924	\$1,423,265		
Total equity	\$ 24,955	\$ 27,400	\$ 26,620		
The Great-West Life Assurance Company consolidated Life Insurance Capital Adequacy Test Ratio⁽⁷⁾	136%	140%	133%		

⁽¹⁾ Adjusted net earnings attributable to common shareholders and adjusted net earnings per common share (EPS) are non-IFRS financial measures of earnings performance. In Q2 2019, adjustments were a net charge of \$199 million relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business (refer to footnote 8 below for the impacts to the Consolidated Statements of Earnings).

⁽²⁾ Return on common shareholders' equity is detailed within the "Capital Allocation Methodology" section.

- (3) Return on common shareholders' equity - adjusted net earnings (a non-IFRS measure) is adjusted for the impact of the net charge on the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business, U.S. tax reform, the net charge on the sale of an equity investment and restructuring costs. For further details on this measure, refer to the "Capital Allocation Methodology" section.
- (4) 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. In addition, the Company excludes ceded premiums relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business. Total premiums and deposits (a non-IFRS financial measure) provides useful information as it is an indicator of top-line growth.
- (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) The Life Insurance Capital Adequacy Test (LICAT) ratio is based on the consolidated results of The Great-West Life Assurance Company, Lifeco's major Canadian operating subsidiary. Refer to the "Capital Management and Adequacy" section for additional details.
- (8) Following the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life on June 1, 2019, the Company recorded a net loss of \$199 million (US\$148 million) related to the transaction. For the three and six months ended June 30, 2019, the impacts to the Consolidated Statements of Earnings are outlined in the table below:

Impact on Consolidated Statements of Earnings of reinsurance of U.S. individual life insurance and annuity business:	
Net premiums (initial ceded premiums)	\$ (13,889)
Fee and other Income (initial ceding commission)	1,080
Net investment income	219
Total paid or credited to policyholders	12,463
Operating, administrative and other expenses	<u>(120)</u>
Total pre-tax net loss per condensed consolidated interim unaudited financial statements (note 3)	(247)
Income taxes	48
Total after-tax net loss	<u>\$ (199)</u>

NET EARNINGS

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

Lifeco's net earnings attributable to common shareholders (net earnings) for the three month period ended June 30, 2019 were \$459 million compared to \$831 million a year ago and \$657 million in the previous quarter. On a per share basis, this represents \$0.489 per common share (\$0.489 diluted) compared to \$0.839 per common share (\$0.839 diluted) a year ago and \$0.665 per common share (\$0.665 diluted) in the previous quarter. Lifeco's net earnings for the second quarter of 2019 include a net charge of \$199 million (US\$148 million) relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life Insurance Company (Protective Life). Excluding this charge, adjusted net earnings for the second quarter of 2019 were \$658 million or \$0.701 per common share (\$0.700 diluted). Included in Lifeco's net earnings for the second quarter of 2018 was a net positive impact of \$60 million, or \$0.061 per common share, arising from refinancing in the U.S. segment.

For the six months ended June 30, 2019, Lifeco's net earnings were \$1,116 million compared to \$1,562 million a year ago. On a per share basis, this represents \$1.159 per common share (\$1.158 diluted) for 2019 compared to \$1.579 per common share (\$1.578 diluted) a year ago. Excluding the net charge discussed for the in-quarter results, adjusted net earnings for the six months ended June 30, 2019 were \$1,315 million or \$1.365 per common share (\$1.364 diluted).

Net earnings - common shareholders

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Canada					
Individual Customer	\$ 135	\$ 124	\$ 211	\$ 259	\$ 349
Group Customer	161	151	194	312	336
Canada Corporate	(16)	8	(71)	(8)	(35)
	280	283	334	563	650
United States					
Financial Services ⁽¹⁾	62	53	65	115	125
Asset Management	6	(4)	(8)	2	(24)
U.S. Corporate ⁽²⁾	3	(1)	52	2	52
Reinsured Insurance & Annuity Business ⁽¹⁾⁽³⁾	(169)	33	36	(136)	67
	(98)	81	145	(17)	220
Europe					
Insurance & Annuities	207	203	281	410	525
Reinsurance	77	97	97	174	201
Europe Corporate	(2)	(1)	(23)	(3)	(27)
	282	299	355	581	699
Lifeco Corporate	(5)	(6)	(3)	(11)	(7)
Net earnings - common shareholders	\$ 459	\$ 657	\$ 831	\$ 1,116	\$ 1,562
Adjustments⁽³⁾					
Net charge on sale, via reinsurance, of a U.S. business	199	—	—	199	—
Adjusted net earnings - common shareholders	\$ 658	\$ 657	\$ 831	\$ 1,315	\$ 1,562

⁽¹⁾ Reinsured Insurance & Annuity Business reflects business transferred to Protective Life under an indemnity reinsurance agreement effective June 1, 2019. Comparative figures have been adjusted to reflect current presentation.

⁽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⁾ Adjustments to net earnings were a net charge of \$199 million (US\$148 million) relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business and are included in the Reinsured Insurance & Annuity Business unit of the U.S. segment.

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 decreased 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 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 7 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2019.

Equity Markets

In the regions where the Company operates, average equity market levels for the three and six months ended June 30, 2019 were higher in Canada and the U.S. and lower in the U.K. and broader Europe compared to the same periods in 2018, however, ended the quarter at higher market levels compared to March 31, 2019.

Relative to the Company's expectation, the change in average market levels and market volatility had a negative impact of \$4 million on net earnings during the second quarter of 2019 and \$16 million positive impact year-to-date (\$1 million negative impact in the second quarter of 2018 and \$1 million positive impact year-to-date in 2018), related to asset-based fee income and the costs related to guarantees of death, maturity or income benefits within certain wealth management products offered by the Company. In addition, net earnings were positively impacted by approximately \$14 million in the second quarter of 2019 and \$37 million year-to-date (\$5 million positive impact in the second quarter of 2018 and \$11 million positive impact year-to-date in 2018), primarily related to seed money investments held in the U.S. Asset Management and Canada Corporate business units. In addition, the change in equity markets negatively impacted the second quarter 2019 net earnings by \$7 million and \$26 million year-to-date (\$7 million negative impact in the second quarter of 2018 and \$5 million positive impact year-to-date in 2018) as a result of the combination of actuarial assumption changes in the Canada segment and an unfavourable tax related item in the Europe segment.

Comparing the second quarter of 2019 to the second quarter of 2018, average equity market levels were up by 3% in Canada (as measured by S&P TSX) and 7% in the U.S. (measured by S&P 500) and down 2% in the U.K. (measured by FTSE 100) and 2% in broader Europe (measured by EURO STOXX 50). The major equity indices finished the second quarter of 2019 up by 2% in Canada, 4% in the U.S., 2% in the U.K. and 4% in broader Europe compared to March 31, 2019.

Foreign Currency

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

The average currency translation rate for the second quarter of 2019 increased for the U.S. dollar and decreased for the British pound and the euro compared to the second quarter of 2018. The overall impact of currency movement on the Company's net earnings for the three month period ended June 30, 2019 was a decrease of \$9 million (\$5 million year-to-date) compared to translation rates a year ago.

From March 31, 2019 to June 30, 2019, the exchange rates at the end of the reporting period used to translate U.S. dollar, euro and British pound 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 \$457 million in-quarter (\$619 million net unrealized loss year-to-date) recorded in other comprehensive income.

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

ACTUARIAL ASSUMPTION CHANGES

During the second quarter of 2019, the Company updated a number of actuarial assumptions resulting in a positive net earnings impact of \$2 million, compared to \$209 million for the same quarter last year and \$129 million for the previous quarter. Excluding the impact of actuarial assumption changes relating to the reinsurance transaction with Protective Life, actuarial assumptions resulted in a positive adjusted net earnings impact of \$38 million.

In Europe, net earnings were positively impacted by \$50 million, primarily due to updated annuitant mortality, morbidity and policyholder behaviour assumptions. In Canada, net earnings were negatively impacted by \$12 million, primarily due to updated tax assumptions related to an Alberta corporate tax rate change.

In the U.S., following the reinsurance transaction with Protective Life, expense assumptions were updated primarily related to stranded overhead, which negatively impacted net earnings by \$36 million. This impact was included in the loss recognized at the closing of the reinsurance transaction. The increase in expenses allocated to the retained business is expected to be mostly eliminated within three years and this is reflected in the updated assumptions.

For the six months ended June 30, 2019, actuarial assumption changes resulted in a positive net earnings impact of \$131 million, compared to a positive impact of \$330 million for the same period in 2018. Excluding the impact of actuarial assumption changes relating to the reinsurance transaction with Protective Life discussed for the in-quarter results, actuarial assumption changes resulted in a positive adjusted net earnings impact of \$167 million.

ACTUARIAL STANDARDS UPDATE

In July 2019, the Canadian Actuarial Standards Board published revised standards for the valuation of insurance contract liabilities, with an effective date of October 15, 2019. The revised standards include decreases to ultimate reinvestment rates and revised calibration criteria for stochastic risk-free interest rates. While the Company is still reviewing the impacts of the changes, it anticipates an increase in liabilities for the Canadian segment, where the Company is exposed to low interest rates on reinvestments in longer durations, and in the U.S. Initial estimates indicate the impact to net earnings to be within the range of \$50 to \$75 million.

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. Total premiums and deposits exclude the initial ceded premium related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business. This measure provides an indicator of top-line growth.

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

	For the three months ended			For the six months ended	
	June 30	March 31	June 30	June 30	June 30
	2019	2019	2018	2019	2018
Premiums and deposits					
Canada					
Individual Customer	\$ 2,511	\$ 2,508	\$ 2,564	\$ 5,019	\$ 5,180
Group Customer	3,909	4,136	3,774	8,045	8,211
	<u>6,420</u>	<u>6,644</u>	<u>6,338</u>	<u>13,064</u>	<u>13,391</u>
United States					
Financial Services ⁽¹⁾	2,790	2,772	2,563	5,562	5,147
Asset Management	12,406	14,550	15,002	26,956	28,237
Reinsured Insurance & Annuity Business ⁽¹⁾	293	514	619	807	1,145
	<u>15,489</u>	<u>17,836</u>	<u>18,184</u>	<u>33,325</u>	<u>34,529</u>
Europe					
Insurance & Annuities	7,936	11,911	6,240	19,847	12,652
Reinsurance	4,435	4,454	3,209	8,889	6,525
	<u>12,371</u>	<u>16,365</u>	<u>9,449</u>	<u>28,736</u>	<u>19,177</u>
Total premiums and deposits	<u>\$ 34,280</u>	<u>\$ 40,845</u>	<u>\$ 33,971</u>	<u>\$ 75,125</u>	<u>\$ 67,097</u>
Sales					
Canada	\$ 2,940	\$ 3,180	\$ 3,040	\$ 6,120	\$ 6,862
United States ⁽²⁾	24,213	75,848	24,508	100,061	49,584
Europe - Insurance & Annuities	7,131	11,181	5,535	18,312	11,274
Total sales	<u>\$ 34,284</u>	<u>\$ 90,209</u>	<u>\$ 33,083</u>	<u>\$ 124,493</u>	<u>\$ 67,720</u>

⁽¹⁾ Reinsured Insurance & Annuity Business reflects business transferred to Protective Life under an indemnity reinsurance agreement effective June 1, 2019. For the three and six months ended June 30, 2019, premiums and deposits exclude the initial ceded premium of \$13,889 million related to the transfer. Comparative figures have been adjusted to reflect current presentation.

⁽²⁾ For the three and six months ended June 30, 2019 sales for the United States reflect \$0.1 billion and \$0.4 billion, respectively, related to the Reinsured Insurance & Annuity Business unit (\$0.5 billion and \$0.9 billion for the three and six months ended June 30, 2018 and \$0.3 billion for the three months ended March 31, 2019).

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

NET INVESTMENT INCOME

Net investment income	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Investment income earned (net of investment properties expenses)	\$ 1,629	\$ 1,478	\$ 1,583	\$ 3,107	\$ 3,126
Net allowances for credit losses on loans and receivables	(45)	(3)	—	(48)	—
Net realized gains	254	11	24	265	85
Regular investment income	1,838	1,486	1,607	3,324	3,211
Investment expenses	(41)	(36)	(32)	(77)	(63)
Regular net investment income	1,797	1,450	1,575	3,247	3,148
Changes in fair value through profit or loss	2,245	4,365	(350)	6,610	(1,837)
Net investment income	\$ 4,042	\$ 5,815	\$ 1,225	\$ 9,857	\$ 1,311

Net investment income in the second quarter of 2019, which includes changes in fair value through profit or loss, increased by \$2,817 million compared to the same quarter last year. The changes in fair value in the second quarter of 2019 were an increase of \$2,245 million compared to a decrease of \$350 million for the second quarter of 2018. In the second quarter of 2019, the net increase to fair values was primarily due to a decline in bond yields across all geographies. In the second quarter of 2018, the net decrease to fair values was primarily due to an increase in U.S. and Canadian bond yields.

Regular net investment income in the second quarter of 2019 of \$1,797 million, which excludes changes in fair value through profit or loss, increased by \$222 million compared to the same quarter last year. The increase was primarily due to realized gains relating to U.S. segment assets transferred under the indemnity reinsurance agreement with Protective Life in the second quarter of 2019. These realized gains were offset by changes in insurance contract liabilities and subsequently ceded to Protective Life in the transaction. For the second quarter of 2019, net allowances for credit losses on loans and receivables of \$45 million primarily reflect the impact of an increase to net allowances for mortgage loans, primarily related to a U.K. retail tenant entering a prepackaged administration. Net realized gains include gains on available-for-sale securities of \$22 million for the second quarter of 2019 compared to losses of \$2 million for the same quarter last year.

For the six months ended June 30, 2019, net investment income increased by \$8,546 million compared to the same period last year. The changes in fair value for the six month period in 2019 were an increase of \$6,610 million compared to a decrease of \$1,837 million during the same period in 2018. The changes in fair value were primarily due to a decrease in bond yields across all geographies and an increase in Canadian equity markets in the first half of 2019, compared to an increase in bond yields across all geographies during the first half of 2018.

Regular net investment income for the six months ended June 30, 2019 increased by \$99 million compared to the same period last year. The increase was primarily due to realized gains relating to the transaction with Protective Life discussed for the in-quarter results, partially offset by lower interest on bond investments. For the six months ended June 30, 2019, net allowances for credit losses on loans and receivables of \$48 million primarily reflect the impact of impairment charges on mortgages discussed for the in-quarter results. Net realized gains include gains on available-for-sale securities of \$27 million for the six months ended June 30, 2019 compared to losses of \$3 million for the same period last year.

Net investment income in the second quarter of 2019 decreased by \$1,773 million compared to the previous quarter, primarily due to an increase in fair values of \$2,245 million in the second quarter of 2019 compared to an increase of \$4,365 million in the previous quarter, partially offset by realized gains relating to the transaction with Protective Life discussed for the in-quarter results. Fair values increased less during the second quarter of 2019 compared to the previous quarter, primarily due to a smaller decrease in Canadian and U.K. bond yields and a smaller increase in Canadian equity markets.

Credit Markets

In the second quarter of 2019, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholders' net earnings by \$12 million (\$1 million net recovery in the second quarter of 2018). Net charges on impaired investments reflect net allowances for credit losses included in net investment income and the associated release of actuarial provisions for future credit losses, as applicable. Charges in the second quarter of 2019 were primarily driven by impairment charges on mortgage loans as a result of a U.K. retail tenant entering a prepackaged administration, which was followed by a Company Voluntary Agreement (CVA). Changes in credit ratings in the Company's fixed income portfolio resulted in a net decrease in provisions for future credit losses in insurance contract liabilities, which positively impacted common shareholders' net earnings by \$1 million (\$7 million net positive impact in the second quarter of 2018).

For the six months ended June 30, 2019, the Company experienced net charges on impaired investments, including dispositions, which negatively impacted common shareholders' net earnings by \$22 million (\$8 million net recovery year-to-date in 2018), driven by the same reasons discussed for the in-quarter results. Changes in credit ratings in the Company's fixed income portfolio resulted in a net decrease in provisions for future credit losses in insurance contract liabilities, which positively impacted common shareholders' net earnings by \$15 million year-to-date (\$3 million net positive impact year-to-date in 2018).

These credit impacts do not reflect the impact to insurance contract liabilities related to the decline in the expected cash flows relating to the mortgage loans and investment properties where certain U.K. retailers occupying the properties continued to experience financial difficulties. The related negative impact to common shareholders' net earnings was \$68 million and is discussed as part of the United Kingdom property related exposures in the "Invested Assets" section.

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.

Fee and other income	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Canada					
Segregated funds, mutual funds and other	\$ 390	\$ 371	\$ 383	\$ 761	\$ 773
ASO contracts	50	51	50	101	98
	<u>440</u>	<u>422</u>	<u>433</u>	<u>862</u>	<u>871</u>
United States					
Segregated funds, mutual funds and other	684	659	655	1,343	1,286
Life insurance and annuity reinsurance ceding commission ⁽¹⁾	1,080	—	—	1,080	—
	<u>1,764</u>	<u>659</u>	<u>655</u>	<u>2,423</u>	<u>1,286</u>
Europe					
Segregated funds, mutual funds and other	387	398	395	785	759
Total fee and other income	<u>\$ 2,591</u>	<u>\$ 1,479</u>	<u>\$ 1,483</u>	<u>\$ 4,070</u>	<u>\$ 2,916</u>

⁽¹⁾ For the three and six months ended June 30, 2019, fee and other income included a ceding commission of \$1,080 million related to the Protective Life transaction.

The information in the table above is a summary of gross fee and other income for the Company. Excluding the ceding commission related to the Protective Life transaction, fee and other income was \$1,511 million. Additional commentary regarding fee and other income is included in the "Segmented Operating Results" section.

NET POLICYHOLDER BENEFITS, DIVIDENDS AND EXPERIENCE REFUNDS

Net policyholder benefits, dividends and experience refunds	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Canada	\$ 2,416	\$ 2,426	\$ 2,369	\$ 4,842	\$ 4,747
United States	1,084	1,208	1,037	2,292	2,154
Europe	5,457	5,353	4,182	10,810	8,516
Total	<u>\$ 8,957</u>	<u>\$ 8,987</u>	<u>\$ 7,588</u>	<u>\$ 17,944</u>	<u>\$ 15,417</u>

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

For the three months ended June 30, 2019, net policyholder benefits, dividends and experience refunds were \$9.0 billion, an increase of \$1.4 billion from the same period last year, driven by higher net policyholder benefits. The increase in benefit payments was primarily due to new reinsurance agreements, higher volumes relating to existing business and the impact of currency movement.

For the six months ended June 30, 2019, net policyholder benefits, dividends and experience refunds were \$17.9 billion, an increase of \$2.5 billion from the same period last year driven by higher net policyholder benefits. The increase in benefit payments was primarily due to the same reasons discussed for the in-quarter results.

Net policyholder benefits, dividends and experience refunds were comparable to the previous quarter.

INCOME TAXES

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

In the second quarter of 2019, the Company had an effective income tax rate of 10%, down from 15% in the second quarter of 2018. The effective income tax rate for the second quarter of 2019 was favourably impacted by changes in certain tax estimates as well as the impact of an Alberta corporate tax rate decrease. The rate decrease resulted in a benefit to the participating account and a nominal charge to the shareholder account.

The Company had an effective income tax rate of 13% for the six months ended June 30, 2019, which was comparable to 12% for the same period last year.

In the second quarter of 2019, the Company had an effective income tax rate of 10%, down from 16% in the first quarter of 2019. The effective income tax rate for the second quarter of 2019 was favourably impacted by changes in certain tax estimates as well as the impact of an Alberta corporate tax rate decrease. The net impact of the tax rate change primarily impacted the participating account as discussed for the in-quarter results.

Effective January 1, 2019, the Company applied IFRIC 23, *Uncertainty over Income Tax Treatments*. Refer to the "Accounting Policies - International Financial Reporting Standards" section for further details.

Refer to note 15 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2019 for further details.

CONSOLIDATED FINANCIAL POSITION

ASSETS

	June 30, 2019			
	Canada	United States	Europe	Total
Assets under administration				
Assets				
Invested assets	\$ 78,822	\$ 33,244	\$ 53,167	\$ 165,233
Assets held for sale	—	—	857	857
Goodwill and intangible assets	5,528	2,003	2,827	10,358
Other assets	3,890	18,843	18,346	41,079
Investments on account of segregated fund policyholders	82,668	32,036	106,388	221,092
Investments on account of segregated fund policyholders held for sale	—	—	3,278	3,278
Total assets	170,908	86,126	184,863	441,897
Proprietary mutual funds and institutional net assets	6,778	248,253	50,221	305,252
Total assets under management	177,686	334,379	235,084	747,149
Other assets under administration	16,756	757,569	46,483	820,808
Total assets under administration	\$ 194,442	\$ 1,091,948	\$ 281,567	\$ 1,567,957
	December 31, 2018			
	Canada	United States	Europe	Total
Assets				
Invested assets	\$ 75,647	\$ 47,500	\$ 54,334	\$ 177,481
Assets held for sale	—	—	897	897
Goodwill and intangible assets	5,516	2,130	2,878	10,524
Other assets	3,110	4,495	18,336	25,941
Investments on account of segregated fund policyholders	76,633	31,816	101,078	209,527
Investments on account of segregated fund policyholders held for sale	—	—	3,319	3,319
Total assets	160,906	85,941	180,842	427,689
Proprietary mutual funds and institutional net assets	6,214	235,075	40,375	281,664
Total assets under management	167,120	321,016	221,217	709,353
Other assets under administration	13,615	630,881	45,024	689,520
Total assets under administration	\$ 180,735	\$ 951,897	\$ 266,241	\$ 1,398,873

Total assets under administration at June 30, 2019 increased by \$169.1 billion to \$1.6 trillion compared to December 31, 2018, primarily due to the impact of market movement and new business growth, partially offset by the impact of currency movement. As a result of the indemnity reinsurance agreement with Protective Life, the U.S. segment's invested assets decreased, as \$15.6 billion of invested assets were derecognized, offset by \$1.1 billion of cash received, while other assets increased as a result of the recognition of \$14.9 billion of reinsurance assets. The increase of \$126.7 billion in the U.S. segment's other assets under administration includes the impact of large plan sales in the first quarter of 2019. The increase of \$3.1 billion in the Canada segment's other assets under administration was primarily due to the acquisition of Guggenheim Real Estate LLC, which added \$2.2 billion in assets under administration.

Assets held for sale of \$857 million and investments on account of segregated fund policyholders held for sale of \$3,278 million at June 30, 2019 relate to the pending sale of a heritage block of policies to Scottish Friendly, which is expected to close in the second half of 2019. Refer to note 4 of the Company's June 30, 2019 condensed consolidated interim unaudited financial statements for further information on assets classified as held for sale.

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 considering 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 \$113.6 billion or 69% of invested assets at June 30, 2019 and \$124.9 billion or 71% at December 31, 2018. The decrease in the bond portfolio was primarily related to assets transferred to support the indemnity reinsurance agreement with Protective Life. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 81% rated A or higher.

Bond portfolio quality

	June 30, 2019		December 31, 2018	
AAA	\$ 22,524	20 %	\$ 23,558	19%
AA	31,800	28	33,793	27
A	38,043	33	41,008	33
BBB	20,685	18	25,553	20
BB or lower	575	1	950	1
Total	<u>\$ 113,627</u>	<u>100 %</u>	<u>\$ 124,862</u>	<u>100%</u>

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. Equity release mortgages are originated in the Europe segment following well-defined lending criteria. 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.

Mortgage portfolio

Mortgage loans by type	June 30, 2019			December 31, 2018	
	Insured	Non-insured	Total	Total	
Single family residential	\$ 592	\$ 1,491	\$ 2,083	\$ 2,104	8%
Multi-family residential	3,810	3,509	7,319	7,617	31
Equity release	—	979	979	813	3
Commercial	276	12,948	13,224	14,480	58
Total	<u>\$ 4,678</u>	<u>\$ 18,927</u>	<u>\$ 23,605</u>	<u>\$ 25,014</u>	<u>100%</u>

The total mortgage portfolio was \$23.6 billion or 14% of invested assets at June 30, 2019, compared to \$25.0 billion or 14% of invested assets at December 31, 2018. The decrease in the mortgage portfolio was primarily related to assets transferred to support the indemnity reinsurance agreement with Protective Life. Total insured loans were \$4.7 billion or 20% of the mortgage portfolio. The equity release mortgages had a weighted average loan-to-value of 24% (23% at December 31, 2018).

Single family residential mortgages

Region	June 30, 2019		December 31, 2018	
	\$		\$	
Ontario	1,061	52%	1,055	51%
Quebec	440	21	445	21
Alberta	124	6	126	6
British Columbia	104	5	112	5
Newfoundland	103	5	108	5
Saskatchewan	89	4	90	4
Nova Scotia	59	3	62	3
New Brunswick	52	2	54	3
Manitoba	46	2	47	2
Other	5	—	5	—
Total	\$ 2,083	100%	\$ 2,104	100%

During the six months ended June 30, 2019, single family mortgage originations, including renewals, were \$201 million, of which 28% were insured. Insured mortgages include mortgages where insurance is provided by a third party and protects the Company in the event that the borrower is unable to fulfill their mortgage obligations. Loans that are insured are subject to the requirements of the mortgage default insurance provider. For new originations of non-insured residential mortgages, the Company's investment policies limit the amortization period to a maximum of 25 years and the loan-to-value ratio to a maximum of 80% of the purchase price or current appraised value of the property. The weighted average remaining amortization period for the single family residential mortgage portfolio was 21 years as at June 30, 2019 (21 years at December 31, 2018).

Provision for future credit losses

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

At June 30, 2019, the total actuarial provision for future credit losses in insurance contract liabilities was \$2,439 million compared to \$2,595 million at December 31, 2018, a decrease of \$156 million, primarily due to the sale, via indemnity reinsurance, of substantially all of Great-West Financial's individual life insurance and annuity business in the United States segment and the impact of impairments on U.K. mortgage loans, partially offset by normal business activity.

The aggregate of impairment provisions of \$51 million (\$23 million at December 31, 2018) and actuarial provision for future credit losses in insurance contract liabilities of \$2,439 million (\$2,595 million at December 31, 2018) represents 1.7% of bond and mortgage assets, including funds held by ceding insurers, at June 30, 2019 (1.7% at December 31, 2018).

United Kingdom property related exposures

At June 30, 2019, the Company's holdings of property related investments in the U.K. were \$8.0 billion, or 4.8% of invested assets, and comparable to \$7.8 billion at December 31, 2018. These holdings remain well diversified across property type - Retail (31%), Industrial/Other (31%), Office (17%), Equity Release (12%) and Multi-family (9%). Of the Retail sector holdings, 48% relate to warehouse/distribution and other retail, 30% relate to shopping centres and department stores and 22% relate to grocery retail sub-categories.

In the second quarter of 2019, a number of the Company's U.K. mortgage loans and investment properties were impacted as certain U.K. retailers occupying the properties continued to experience financial difficulties. For these mortgage loans and investment 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 \$68 million and was primarily related to a U.K. retail tenant that entered a prepackaged administration during the quarter.

DERIVATIVE FINANCIAL INSTRUMENTS

During the second quarter of 2019, there were no major changes to the Company's policies and procedures with respect to the use of derivative financial instruments. The Company's derivative transactions are generally governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements, which provide for legally enforceable set-off and close-out netting of exposure to specific counterparties in the event of an early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from a counterparty against payables to the same counterparty, in the same legal entity, arising out of all included transactions. The Company's ISDA Master Agreements may include Credit Support Annex provisions, which require both the pledging and accepting of collateral in connection with its derivative transactions.

At June 30, 2019, total financial collateral, including initial margin and overcollateralization, received on derivative assets was \$288 million (\$113 million at December 31, 2018) and pledged on derivative liabilities was \$417 million (\$691 million at December 31, 2018). Collateral received on derivative assets increased and collateral pledged on derivative liabilities decreased in 2019, primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

During the six month period ended June 30, 2019, the outstanding notional amount of derivative contracts increased by \$0.7 billion to \$20.3 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, increased to \$655 million at June 30, 2019 from \$417 million at December 31, 2018. The increase was primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

LIABILITIES

Total liabilities	June 30 2019	December 31 2018
Insurance and investment contract liabilities	\$ 173,204	\$ 168,431
Liabilities held for sale	857	897
Other general fund liabilities	18,511	18,117
Investment and insurance contracts on account of segregated fund policyholders	221,092	209,527
Investment and insurance contracts on account of segregated fund policyholders held for sale	3,278	3,319
Total	\$ 416,942	\$ 400,291

Total liabilities increased by \$16.7 billion to \$416.9 billion at June 30, 2019 from December 31, 2018. Investment and insurance contracts on account of segregated fund policyholders increased by \$11.6 billion, primarily due to the impact of net market value gains and investment income of \$18.5 billion, partially offset by the impact of currency movement of \$6.1 billion and net withdrawals of \$0.9 billion. Insurance and investment contract liabilities increased by \$4.8 billion, primarily due to fair value adjustments and the impact of new business, partially offset by the weakening of the British pound, euro and U.S. dollar against the Canadian dollar.

Liabilities held for sale of \$0.9 billion and investment and insurance contracts on account of segregated fund policyholders held for sale of \$3.3 billion at June 30, 2019 relate to the pending sale of a heritage block of policies to Scottish Friendly, which is expected to close in the second half of 2019. For further information on liabilities classified as held for sale, refer to note 4 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2019.

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. The Company has a hedging program in place to manage certain risks associated with options embedded in its GMWB products. At June 30, 2019, the amount of GMWB products in-force in Canada, the U.S., Ireland and Germany were \$3,343 million (\$4,169 million at December 31, 2018). The decrease of \$826 million was primarily due to U.S. business transferred to Protective Life under an indemnity reinsurance agreement effective June 1, 2019.

Segregated fund and variable annuity guarantee exposure

	June 30, 2019				
	Market Value	Investment deficiency by benefit type			Total ⁽¹⁾
		Income	Maturity	Death	
Canada	\$ 32,104	\$ —	\$ 17	\$ 50	\$ 50
United States	10,145	6	—	5	11
Europe					
Insurance & Annuities	9,895	4	—	622	622
Reinsurance ⁽²⁾	958	325	—	1	326
Total Europe	10,853	329	—	623	948
Total	\$ 53,102	\$ 335	\$ 17	\$ 678	\$ 1,009

⁽¹⁾ A policy can only receive a payout from one of the three trigger events (income election, maturity or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on June 30, 2019.

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

The investment deficiency measures the point-in-time exposure to a trigger event (i.e., income election, maturity or death) assuming it occurred on June 30, 2019. 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 \$6 million in-quarter (\$2 million for the second quarter of 2018) and \$11 million year-to-date (\$8 million year-to-date for 2018) 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 considering both the short and long-term capital needs of the Company.

DEBENTURES AND OTHER DEBT INSTRUMENTS

At June 30, 2019, debentures and other debt instruments decreased by \$128 million to \$6,331 million compared to December 31, 2018 primarily due to the impact of currency movement.

SHARE CAPITAL AND SURPLUS

Share capital outstanding at June 30, 2019 was \$8,346 million, which was comprised of \$5,632 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. Common shares decreased by \$1,651 million from December 31, 2018, due to the substantial issuer bid described below, which included the Company issuing and subsequently canceling 595,747,641 shares as part of a Qualifying Holdco Alternative (as described in the Offer documents).

The Company commenced a normal course issuer bid (NCIB) on February 1, 2019 for one year to purchase and cancel up to 20,000,000 of its common shares at market prices in order to mitigate the dilutive effect of stock options granted under the Company's Stock Option Plan and for other capital management purposes. During the six months ended June 30, 2019, the Company did not repurchase any common shares under the current NCIB. During the six months ended June 30, 2018, the Company repurchased and subsequently cancelled 857,048 common shares at an average cost per share of \$33.80.

On March 4, 2019, the Company announced a substantial issuer bid (the Offer) pursuant to which the Company offered to purchase for cancellation up to \$2 billion of its common shares from shareholders for cash. The Offer commenced on March 8, 2019 and expired on April 12, 2019. On April 17, 2019, the Company purchased and subsequently cancelled 59,700,974 common shares under the Offer at a price of \$33.50 per share for an aggregate purchase price of \$2 billion. The excess paid over the average carrying value under the Offer was \$1,628 million and was recognized as a reduction to accumulated surplus. Transaction costs of \$3 million were incurred in connection with the Offer and charged to accumulated surplus.

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 levels of liquid investments adequate to meet anticipated liquidity needs. The Company holds cash, cash equivalents and short-term bonds at the Lifeco holding company level and with the Lifeco consolidated subsidiary companies. At June 30, 2019, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of \$8.3 billion (\$7.8 billion at December 31, 2018) and other liquid assets and marketable securities of \$86.1 billion (\$93.2 billion at December 31, 2018). Included in the cash, cash equivalents and short-term bonds at June 30, 2019 was \$0.3 billion (\$1.0 billion at December 31, 2018) held at the Lifeco holding company level which includes cash at Great-West Lifeco U.S. LLC, the Company's U.S. holding company. The decrease was primarily due to the settlement of the substantial issuer bid on April 17, 2019. Cash, cash equivalents and short-term bonds at June 30, 2019 do not reflect the net proceeds from the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business, which is held within the U.S. segment. In addition, the Company maintains committed lines of credit with Canadian chartered banks for potential unanticipated liquidity needs, if required.

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

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

CASH FLOWS

Cash flows	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Cash flows relating to the following activities:				
Operations	\$ 2,739	\$ 1,159	\$ 3,548	\$ 2,318
Financing	(2,394)	(296)	(2,799)	(532)
Investment	(895)	(615)	(938)	(1,618)
	(550)	248	(189)	168
Effects of changes in exchange rates on cash and cash equivalents	(96)	(49)	(144)	75
Increase (decrease) in cash and cash equivalents in the period	(646)	199	(333)	243
Cash and cash equivalents, beginning of period	4,481	3,595	4,168	3,551
Cash and cash equivalents, end of period	\$ 3,835	\$ 3,794	\$ 3,835	\$ 3,794

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

In the second quarter of 2019, cash and cash equivalents decreased by \$646 million from March 31, 2019. Cash flows provided by operations during the second quarter of 2019 were \$2,739 million, an increase of \$1,580 million compared to the second quarter of 2018, which included \$1.1 billion of cash received as a result of the indemnity reinsurance agreement with Protective Life. Cash flows used in financing were \$2,394 million, primarily used for the purchase and cancellation of common shares of \$2.0 billion relating to the Company's substantial issuer bid and payment of dividends to common and preferred shareholders of \$0.4 billion. For the three months ended June 30, 2019, cash flows were used by the Company to acquire an additional \$895 million of investment assets.

For the six months ended June 30, 2019, cash and cash equivalents decreased by \$333 million from December 31, 2018. Cash flows provided by operations were \$3,548 million, an increase of \$1,230 million compared to the same period in 2018, which included \$1.1 billion of cash received as a result of the indemnity reinsurance agreement with Protective Life. Cash flows used in financing were \$2,799 million, primarily used for the purchase and cancellation of common shares of \$2.0 billion relating to the Company's substantial issuer bid and the payment of dividends to common and preferred shareholders of \$0.9 billion. In the first quarter of 2019, the Company increased the quarterly dividend to common shareholders from \$0.389 per common share to \$0.413 per common share. For the six months ended June 30, 2019, cash flows were used by the Company to acquire an additional \$938 million of investment assets.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations have not changed materially from December 31, 2018.

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).

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 support the continuity of existing business.

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

Great-West Life's consolidated LICAT ratio at June 30, 2019 was 136% (140% at March 31, 2019). The LICAT ratio does not take into account any impact from \$0.3 billion of liquidity at the Lifeco holding company level at June 30, 2019 (\$1.0 billion at March 31, 2019). Liquidity at the Lifeco holding company level does not reflect the net proceeds from the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business, which is held within the U.S. segment. During the quarter, the Company repurchased and subsequently cancelled common shares for aggregate consideration of \$2.0 billion. The dividends paid by Great-West Life to Lifeco to support this transaction decreased Great-West Life's consolidated LICAT ratio for June 30, 2019 by approximately 6 points in the quarter.

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

LICAT Ratio	June 30 2019	March 31 2019
Tier 1 Capital	\$ 11,134	\$ 12,404
Tier 2 Capital	3,655	3,722
Total Available Capital	14,789	16,126
Surplus Allowance & Eligible Deposits	11,723	11,137
Total Capital Resources	\$ 26,512	\$ 27,263
Base Solvency Buffer (includes OSFI scalar 1.05)	\$ 19,542	\$ 19,508
Total Ratio (OSFI Supervisory Target = 100%)⁽¹⁾	136%	140%

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

OSFI Regulatory Capital Initiatives

The IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. The IASB Board agreed to implementation of IFRS 17, for periods beginning on or after January 1, 2022. IFRS 17 includes, among other things, new requirements for the recognition and measurement of insurance contracts the 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.

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 Great-West Financial and U.S. Asset Management (Putnam), it tracks the financial statement carrying value of the business units. Total leverage capital is consistently allocated across all business units in proportion to total capital resulting in a debt-to-equity ratio in each business unit mirroring the consolidated Company.

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

Return on Equity - Net earnings basis ⁽¹⁾	June 30 2019	March 31 2019	June 30 2018
Canada	16.6 %	17.2 %	20.9 %
Great-West Financial	5.8 %	10.9 %	18.2 %
U.S. Asset Management (Putnam)	(1.6)%	(1.7)%	(28.7)%
Europe	16.4 %	16.6 %	15.0 %
Total Lifeco Net Earnings Basis	12.0 %	13.5 %	12.5 %
Return on Equity - Adjusted net earnings basis ⁽¹⁾⁽²⁾	June 30 2019	March 31 2019	June 30 2018
Canada ⁽³⁾	16.6 %	17.2 %	21.2 %
Great-West Financial ⁽⁴⁾	12.0 %	10.9 %	12.4 %
U.S. Asset Management (Putnam) ⁽⁵⁾	(1.6)%	(1.7)%	(0.7)%
Europe ⁽⁶⁾	17.1 %	17.3 %	14.5 %
Total Lifeco Adjusted Net Earnings Basis⁽³⁾	13.2 %	13.7 %	14.2 %

⁽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 exclude \$19 million related to the impact of U.S. tax reform in the fourth quarter of 2017.

⁽⁴⁾ Great-West Financial adjusted net earnings exclude the net charge of \$199 million relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business in the second quarter of 2019 and the positive impact of U.S. tax reform of \$197 million in the fourth quarter of 2017.

⁽⁵⁾ U.S. Asset Management (Putnam) adjusted net earnings exclude the impact of a net charge on the sale of an equity investment of \$122 million and the impact of U.S. tax reform of \$448 million in the fourth quarter of 2017.

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

The Company reported ROE based on net earnings of 12.0% at June 30, 2019, down from 13.5% at March 31, 2019. 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 March 31, 2019 and June 30, 2018 ROE by 0.3%.

The Company reported ROE based on adjusted net earnings of 13.2% at June 30, 2019, down from 13.7% at March 31, 2019 and 14.2% at June 30, 2018. Adjusted net earnings exclude the net charge relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business, 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. 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. In second quarter of 2019, 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. These ratings are not a recommendation to buy, sell or hold the securities of the Company or its subsidiaries 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 agency.

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 second quarter of 2019.

Following Lifeco's announcement on January 24, 2019 that its subsidiary, Great-West Life & Annuity Insurance Company (GWL&A), had reached an agreement to sell, via indemnity reinsurance, substantially all of its individual life insurance and annuity business, Moody's Investors Service issued a news release announcing that it had placed the Aa3 insurance financial strength (IFS) ratings of GWL&A and its subsidiary, Great-West Life & Annuity Insurance Company of New York, on review for downgrade. Subsequently, on June 4, 2019, following Lifeco's announcement of the completion of the sale, Moody's Investors Service announced it had concluded its review and confirmed the Aa3 IFS ratings of GWL&A and its subsidiary, Great-West Life & Annuity Insurance Company of New York. The A3 issuer rating of GWL&A's U.S. holding company, GWL&A Financial, Inc., and the Baa1(hybrid) senior debt rating of debentures issued by an affiliate, Great-West Life & Annuity Insurance Capital, LP, were also confirmed. The outlook for GWL&A Financial, Inc., and its subsidiaries that were under review, is now stable.

Rating agency	Measurement	Lifeco	Great-West Life	London Life	Canada Life	Irish Life	Great-West Life & Annuity Insurance Company
A.M. Best Company	Financial Strength		A+	A+	A+		A+
DBRS Limited	Issuer Rating	A (high)	AA				NR
	Financial Strength		AA	AA	AA		
	Senior Debt	A (high)					
Fitch Ratings	Subordinated Debt				AA (low)		AA
	Insurer Financial Strength		AA	AA	AA	AA	
	Senior Debt	A					
Moody's Investors Service	Subordinated Debt				A+		Aa3
	Insurance Financial Strength		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 insurance as well as retirement savings and income products and other specialty products to group clients in Canada.

Selected consolidated financial information - Canada

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Premiums and deposits	\$ 6,420	\$ 6,644	\$ 6,338	\$ 13,064	\$ 13,391
Sales	2,940	3,180	3,040	6,120	6,862
Fee and other income	440	422	433	862	871
Net earnings	280	283	334	563	650
Total assets	\$ 170,908	\$ 169,102	\$ 164,456		
Proprietary mutual funds and institutional net assets	6,778	6,676	7,155		
Total assets under management	177,686	175,778	171,611		
Other assets under administration	16,756	16,736	13,632		
Total assets under administration	\$ 194,442	\$ 192,514	\$ 185,243		

2019 DEVELOPMENTS

- On April 3, 2019, the Company announced its three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, are moving to one brand in Canada: Canada Life. Canada Life will become the brand under which the organization will create, deliver and communicate products and services in Canada across all of its lines of business. As part of this initiative, during the second quarter of 2019, the Company opened the full suite of Canada Life wealth and insurance products to both Wealth and Insurance Solutions Enterprise (WISE) and Freedom 55 Financial Advisors.
- Subsequent to June 30, 2019, on July 19, 2019, the Company announced that the Boards of Directors of its three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., have approved plans to proceed with the amalgamation of these five entities into one company: The Canada Life Assurance Company.

Subject to regulatory and policyholder approval, the amalgamation is expected to be completed by January 1, 2020. Special meetings of policyholders of each of the three amalgamating life insurance companies will be called and policyholders will receive an information circular providing background and describing the expected benefits of the amalgamation.

Upon approval, the companies will be combined into one single life insurance company operating under The Canada Life Assurance Company name. Lifeco will remain the parent company, and the amalgamated company will retain all of the amalgamating companies' current corporate office locations.

- Following the launch of the London Life Pathways Mutual Funds during the fourth quarter of 2018, Canada Life launched Pathways to segregated funds during the second quarter of 2019. Canada Life also launched a no sales charge (NSC) option on Canada Life segregated funds, helping advisors provide flexible investment solutions to meet their clients' unique needs.
- During the second quarter of 2019, the Company launched new term 30 and term to age 65 life insurance products, which are also available through SimpleProtect, the Company's digital application.
- During the second quarter of 2019, Group Customer successfully launched the GRS Access plan member website to its entire group customer base. In addition, group life and health insurance member self-enrollment was rolled out to over 80% of the group sponsor base.
- During the second quarter of 2019, the Company received the 2019 Life Insurance Marketing and Research Association (LIMRA) Creative Connections: Platinum Award. The award recognized the Company's 2018 Chinese Marketing Campaign.
- During the second quarter of 2019, the Company was voted as a Top 100 Employer by over 20,000 students from 150 colleges and universities across Canada in a survey conducted by Universum.

BUSINESS UNITS - CANADA

INDIVIDUAL CUSTOMER

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Premiums and deposits	\$ 2,511	\$ 2,508	\$ 2,564	\$ 5,019	\$ 5,180
Sales	2,223	2,357	2,253	4,580	4,778
Fee and other income	248	237	252	485	502
Net earnings	135	124	211	259	349

Premiums and deposits

Premiums and deposits for the second quarter of 2019 decreased by \$0.1 billion to \$2.5 billion compared to the same quarter last year, primarily due to a decrease in segregated fund and proprietary mutual fund deposits, partially offset by an increase in participating life insurance premiums.

For the six months ended June 30, 2019, premiums and deposits decreased by \$0.2 billion to \$5.0 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Premiums and deposits for the second quarter of 2019 of \$2.5 billion were comparable to the previous quarter.

Sales

Sales for the second quarter of 2019 of \$2.2 billion were comparable to the same quarter last year as lower segregated fund sales were mostly offset by higher third party mutual fund sales and higher life insurance sales.

For the six months ended June 30, 2019, sales decreased by \$0.2 billion to \$4.6 billion compared to the same period last year, due to the same reasons discussed for the in-quarter results.

Sales for the second quarter of 2019 decreased by \$0.1 billion compared to the previous quarter, primarily due to lower segregated fund sales.

For the individual wealth investment fund business, net cash outflows for the second quarter of 2019 were \$436 million compared to net cash outflows of \$177 million for the same quarter last year and net cash outflows of \$360 million for the previous quarter. Net cash outflows for the six months ended June 30, 2019 were \$796 million compared to net cash outflows of \$314 million for the same period last year.

Fee and other income

Fee and other income for the second quarter of 2019 decreased by \$4 million to \$248 million compared to the same quarter last year. The decrease was primarily due to lower margins, partially offset by higher average assets under administration.

For the six months ended June 30, 2019, fee and other income decreased by \$17 million to \$485 million compared to the same period last year, primarily due to lower margins and lower average assets under administration.

Fee and other income for the second quarter of 2019 increased by \$11 million compared the previous quarter, primarily due to higher assets under administration driven by higher average equity market levels.

Net earnings

Net earnings for the second quarter of 2019 decreased by \$76 million to \$135 million compared to the same quarter last year. The decrease was primarily due to lower contributions from insurance contract liability basis changes, lower net fee income, unfavourable policyholder behaviour experience and less favourable impacts of changes to certain income tax estimates. The decrease was partially offset by higher contributions from investment experience.

For the six months ended June 30, 2019, net earnings decreased by \$90 million to \$259 million compared to the same period last year. The decrease was primarily due to the same reasons discussed for the in-quarter results.

Net earnings for the second quarter of 2019 increased by \$11 million compared to the previous quarter, primarily due to higher net fee income, higher contributions from investment experience and more favourable impacts of changes to certain income tax estimates. The increase was partially offset by lower contributions from insurance contract liability basis changes and unfavourable policyholder behaviour experience.

For the second quarter of 2019, net earnings attributable to the participating account were \$4 million compared to \$17 million for the same quarter last year. The decrease in net earnings was primarily due to a less favourable impact of new business and the less favourable impacts of changes to certain income tax estimates.

For the six months ended June 30, 2019, the net loss attributable to the participating account was \$4 million compared to net earnings of \$17 million for the same period last year. The decrease in net earnings was primarily due to the same reasons discussed for the in-quarter results.

For the second quarter of 2019, net earnings attributable to the participating account increased by \$12 million compared to the previous quarter. The increase was primarily due to higher contributions from investment experience.

GROUP CUSTOMER

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Premiums and deposits	\$ 3,909	\$ 4,136	\$ 3,774	\$ 8,045	\$ 8,211
Sales	717	823	787	1,540	2,084
Fee and other income	175	170	170	345	340
Net earnings	161	151	194	312	336

Premiums and deposits

Premiums and deposits for the second quarter of 2019 increased by \$0.1 billion to \$3.9 billion compared to the same quarter last year. The increase was primarily due to higher segregated fund deposits and higher administrative services only (ASO) deposits for group insurance.

For the six months ended June 30, 2019, premiums and deposits decreased by \$0.2 billion to \$8.0 billion compared to the same period last year. The decrease was primarily due to lower premiums and deposits related to single premium group annuities (SPGAs) and lower segregated fund deposits, partially offset by higher ASO deposits and group insurance premiums.

Premiums and deposits for the second quarter of 2019 decreased by \$0.2 billion to \$3.9 billion compared to the previous quarter, primarily due to lower segregated fund deposits.

Sales

Sales for the second quarter of 2019 of \$0.7 billion decreased by \$0.1 billion compared to the same quarter last year. The decrease was primarily due to lower large case and creditor sales for group insurance, partially offset by higher segregated fund sales. Sales of large cases can be highly variable from quarter to quarter.

For the six months ended June 30, 2019, sales decreased by \$0.5 billion to \$1.5 billion compared to the same period last year, primarily due to lower large case sales for group insurance and lower sales of SPGAs.

Sales for the second quarter of 2019 decreased by \$0.1 billion compared to the previous quarter, primarily due to lower segregated fund sales and lower large case sales for group insurance, partially offset by higher sales of SPGAs.

For the group wealth segregated fund business, net cash outflows for the second quarter of 2019 were \$235 million, compared to net cash outflows of \$9 million for the same quarter last year and net cash inflows of \$400 million for the previous quarter. For the six months ended June 30, 2019, net cash inflows were \$165 million compared to net cash inflows of \$92 million for the same period last year.

Fee and other income

Fee and other income for the second quarter of 2019 of \$175 million was comparable to the same quarter last year and to the previous quarter.

Fee and other income for the six months ended June 30, 2019 of \$345 million was comparable to the same period last year.

Net earnings

Net earnings for the second quarter of 2019 decreased by \$33 million to \$161 million compared to the same quarter last year, primarily due to lower contributions from insurance contract liability basis changes.

For the six months ended June 30, 2019, net earnings decreased by \$24 million to \$312 million compared to the same period last year. The decrease was primarily due to higher expenses related to strategic investments and less favourable impact of changes to certain income tax estimates, partially offset by more favourable morbidity experience.

Net earnings for the second quarter of 2019 increased by \$10 million compared to the previous quarter. The increase was primarily due to higher net fee income for group wealth, more favourable mortality and morbidity experience and the more favourable impact of changes to certain tax estimates, partially offset by lower contributions from insurance contract liability basis changes.

CANADA CORPORATE

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

In the second quarter of 2019, the net loss was \$16 million compared to a net loss of \$71 million for the same quarter last year. The increase was primarily due to changes in certain income tax estimates.

The net loss for the six months ended June 30, 2019 was \$8 million compared to a net loss of \$35 million for the same period last year. The increase was primarily due to lower operating expenses and changes in certain income tax estimates.

In the second quarter of 2019, the net loss was \$16 million, a decrease of \$24 million from net earnings of \$8 million in the previous quarter, primarily due to lower net investment income and less favourable impact of changes to certain income tax estimates, partially offset by lower operating expenses.

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. Following the close of the reinsurance transaction, Financial Services also includes a retained block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance.

The Reinsured Insurance & Annuity Business unit reflects substantially all of the individual life insurance and annuity business which has been sold, through indemnity reinsurance, to Protective Life effective June 1, 2019. These products include life insurance, annuity and executive benefits, which are no longer offered by the U.S. segment.

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.

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

Selected consolidated financial information - United States

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018 ⁽¹⁾	June 30 2019	June 30 2018 ⁽¹⁾
Premiums and deposits ⁽¹⁾	\$ 15,489	\$ 17,836	\$ 18,184	\$ 33,325	\$ 34,529
Sales	24,213	75,848	24,508	100,061	49,584
Fee and other income ⁽²⁾	1,764	659	655	2,423	1,286
Net earnings - common shareholders	(98)	81	145	(17)	220
Net earnings (US\$) - common shareholders ⁽³⁾	(73)	61	105	(12)	164
Adjusted net earnings - common shareholders ⁽³⁾⁽⁴⁾	101	81	145	182	220
Adjusted net earnings (US\$) - common shareholders ⁽³⁾⁽⁴⁾	75	61	105	136	164
Total assets	\$ 86,126	\$ 87,439	\$ 85,203		
Proprietary mutual funds and institutional net assets	248,253	247,725	243,506		
Total assets under management	334,379	335,164	328,709		
Other assets under administration	757,569	742,238	642,276		
Total assets under administration	\$ 1,091,948	\$ 1,077,402	\$ 970,985		

⁽¹⁾ For the three and six months ended June 30, 2019, premiums and deposits excluded the initial ceded premium of \$13,889 million (US\$10,365 million) related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

⁽²⁾ For the three and six months ended June 30, 2019, fee and other income included a ceding commission of \$1,080 million (US\$806 million) related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

⁽³⁾ Net earnings (US\$) - common shareholders and adjusted net earnings (US\$) - common shareholders do not include \$9 million of net foreign currency exchange gains in the second quarter of 2018 as they do not have a US\$ equivalent. These amounts are only included in Canadian dollar net earnings.

⁽⁴⁾ Adjusted net earnings - common shareholders and adjusted net earnings (US\$) - common shareholders are non-IFRS financial measures of earnings performance. Adjusted net earnings exclude the net charge of \$199 million (US\$148 million) on the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

2019 DEVELOPMENTS

- On June 5, 2019, the Securities and Exchange Commission adopted and released Regulation Best Interest (the Rule). The Rule establishes a new standard of conduct requiring broker-dealers to act in the best interest of retail clients and retirement plan participants when recommending securities and investment strategies and making account recommendations. The Rule does not apply to discussions with plan sponsors. The Rule is effective on June 30, 2020 and the Company intends to fully comply with the Rule by that date. Management does not expect that the Rule will prevent the Company from executing on its overall business strategy and growth objectives.

Net earnings - common shareholders

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Financial Services ⁽¹⁾	\$ 62	\$ 53	\$ 65	\$ 115	\$ 125
Asset Management	6	(4)	(8)	2	(24)
U.S. Corporate	3	(1)	52	2	52
Reinsured Insurance & Annuity Business ⁽¹⁾⁽²⁾	(169)	33	36	(136)	67
Net earnings - common shareholders	\$ (98)	\$ 81	\$ 145	\$ (17)	\$ 220
Adjustments					
Net charge on sale, via reinsurance, of a U.S. business	199	—	—	199	—
Adjusted net earnings - common shareholders⁽²⁾	\$ 101	\$ 81	\$ 145	\$ 182	\$ 220
Financial Services (US\$) ⁽¹⁾	\$ 46	\$ 40	\$ 51	\$ 86	\$ 99
Asset Management (US\$)	5	(3)	(6)	2	(19)
Corporate (US\$)	2	(1)	33	1	33
Reinsured Insurance & Annuity Business (US\$) ⁽¹⁾⁽²⁾	(126)	25	27	(101)	51
Net earnings (US\$) - common shareholders	\$ (73)	\$ 61	\$ 105	\$ (12)	\$ 164
Adjustments					
Net charge on sale, via reinsurance, of a U.S. business (US\$)	148	—	—	148	—
Adjusted net earnings (US\$) - common shareholders⁽²⁾	\$ 75	\$ 61	\$ 105	\$ 136	\$ 164

⁽¹⁾ Reinsured Insurance & Annuity Business reflects business transferred to Protective Life Insurance on June 1, 2019. Comparative figures have been adjusted to reflect current presentation.

⁽²⁾ Adjusted net earnings attributable to common shareholders is a non-IFRS financial measure of earnings performance. Adjustments to net earnings are included in the Reinsured Insurance & Annuity Business unit.

BUSINESS UNITS – UNITED STATES

FINANCIAL SERVICES

2019 DEVELOPMENTS

- On June 1, 2019, Great-West Financial, a subsidiary of the Company, completed the sale, via indemnity reinsurance, of substantially all of its individual life insurance and annuity business to Protective Life who now assumes the economics and risks associated with the reinsured business. The transaction resulted in an after-tax transaction value of approximately \$1.6 billion (US\$1.2 billion), excluding one-time expenses. The transaction value includes a ceding commission of \$1,080 million (US\$806 million) and a capital release of approximately \$530 million (US\$400 million). The business transferred included bank-owned and corporate-owned life insurance, single premium life insurance, individual annuities as well as closed block life insurance and annuities. Because the transaction is structured as a reinsurance agreement, the Company will hold both the liability and offsetting reinsurance asset. Protective Life will assume the economics and risks associated with the reinsured business.

The Company recognized a loss related to this transaction of \$199 million (US\$148 million), which included transaction costs of \$63 million (US\$47 million) and \$36 million (US\$27 million) due to updated expense assumptions primarily related to stranded overhead. The liabilities transferred and ceding commission received at the closing of this transaction are subject to future adjustments. Additionally, certain post-closing contingencies exist that may result in additional payments to Lifeco. Great-West Financial will retain a block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance. Post-transaction, the Company will focus on the defined contribution retirement and asset management markets in the U.S. segment.

- Empower Retirement participant accounts have grown to 9.2 million at June 30, 2019 from 8.8 million at December 31, 2018, primarily driven by large plan sales in the first quarter of 2019.
- Empower Retirement assets under administration grew to US\$640 billion at June 30, 2019, up from US\$516 billion at December 31, 2018.

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Premiums and deposits ⁽¹⁾⁽²⁾	\$ 2,790	\$ 2,772	\$ 2,563	\$ 5,562	\$ 5,147
Sales ⁽¹⁾⁽³⁾	11,720	60,977	9,003	72,697	20,485
Fee and other income ⁽¹⁾	354	329	319	683	622
Net earnings ⁽¹⁾⁽⁴⁾	62	53	65	115	125
Premiums and deposits (US\$) ⁽¹⁾⁽²⁾	\$ 2,081	\$ 2,083	\$ 1,987	\$ 4,164	\$ 4,038
Sales (US\$) ⁽¹⁾⁽³⁾	8,746	45,847	6,979	54,593	16,092
Fee and other income (US\$) ⁽¹⁾	264	247	248	511	488
Net earnings (US\$) ⁽¹⁾⁽⁴⁾	46	40	51	86	99

⁽¹⁾ The operating results of Financial Services have been restated for comparative periods to reflect the impact of the reinsurance transaction with Protective Life, which closed on June 1, 2019. Following the close of the reinsurance transaction and included in Financial Services results, the Company will retain a block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance.

⁽²⁾ For the three and six months ended June 30, 2019, premiums and deposits included US\$36 million and US\$79 million, respectively, relating to the retained policies (US\$43 million and US\$99 million for the three and six months ended June 30, 2018 and US\$43 million for the three months ended March 31, 2019).

⁽³⁾ For the three and six months ended June 30, 2019, sales included US\$0.2 billion and US\$0.5 billion, respectively, relating to Putnam managed funds sold on the Empower Retirement platform (US\$0.2 billion and US\$0.5 billion for the three and six months ended June 30, 2018 and US\$0.3 billion for the three months ended March 31, 2019).

⁽⁴⁾ For the three and six months ended June 30, 2019, net earnings included US\$7 million and US\$19 million, respectively, relating to the retained policies (US\$8 million and US\$19 million for the three and six months ended June 30, 2018 and US\$12 million for the three months ended March 31, 2019).

Premiums and deposits

Premiums and deposits for the second quarter of 2019 of US\$2.1 billion increased by US\$0.1 billion compared to the same quarter last year, primarily due to higher deposits from existing Empower Retirement participants.

For the six months ended June 30, 2019, premiums and deposits increased by US\$0.1 billion to US\$4.2 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Premiums and deposits for the second quarter of 2019 of US\$2.1 billion were comparable to the previous quarter.

Sales

Sales in the second quarter of 2019 increased by US\$1.8 billion to US\$8.7 billion compared to the same quarter last year, primarily due to an increase in Empower Retirement across all product lines.

For the six months ended June 30, 2019, sales increased by US\$38.5 billion to US\$54.6 billion compared to the same period last year, primarily due to an increase in Empower Retirement large plan sales. Included in sales for the first quarter of 2019 was one large sale relating to a new client with close to 200,000 participants. Large plan sales can be highly variable from period to period and tend to be lower margin; however, contribute to covering fixed overhead costs.

Sales in the second quarter of 2019 decreased by US\$37.1 billion compared to the previous quarter, primarily due to lower Empower Retirement large plan sales driven by one large sale in the first quarter of 2019, as discussed for the year-to-date results.

Fee and other income

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

Fee and other income for the second quarter of 2019 increased by US\$16 million to US\$264 million compared to the same quarter last year, primarily due to growth in participants and higher average equity markets.

For the six months ended June 30, 2019, fee and other income increased by US\$23 million to US\$511 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for the second quarter of 2019 increased by US\$17 million compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

Net earnings

Net earnings for the second quarter of 2019 decreased by US\$5 million to US\$46 million compared to the same quarter last year. The decrease was primarily due to higher operating expenses, partially offset by higher contributions from investment experience.

For the six months ended June 30, 2019, net earnings decreased by US\$13 million to US\$86 million compared to the same period last year. The decrease was primarily due to higher operating expenses and lower contributions from investment experience.

Net earnings for the second quarter of 2019 increased by US\$6 million compared to the previous quarter, primarily due to net business growth and higher contributions from investment experience.

ASSET MANAGEMENT**2019 DEVELOPMENTS**

- Putnam's ending assets under management (AUM) at June 30, 2019 of US\$174.7 billion increased by US\$2.2 billion compared to the same period last year, while average AUM for the three months ended June 30, 2019 of US\$172.0 billion was comparable to the same period last year. Putnam's ending AUM increased by US\$14.5 billion compared to December 31, 2018.
- Putnam continues to sustain strong investment performance relative to its peers. As of June 30, 2019, approximately 90% and 77% of Putnam's fund assets performed at levels above the Lipper median on a three-year and five-year basis, respectively. Additionally, approximately 74% of Putnam's fund assets performed at levels in the Lipper top quartile on a three-year basis.

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Sales	\$ 12,406	\$ 14,550	\$ 15,002	\$ 26,956	\$ 28,237
Fee income					
Investment management fees	204	198	207	402	410
Performance fees	(3)	(6)	(10)	(9)	(21)
Service fees	38	37	37	75	73
Underwriting & distribution fees	59	56	61	115	123
Fee income	298	285	295	583	585
Core net earnings (loss) ⁽¹⁾	20	8	6	28	3
Less: Financing and other expenses (after-tax) ⁽¹⁾	(14)	(12)	(14)	(26)	(27)
Reported net earnings (loss)	6	(4)	(8)	2	(24)
Sales (US\$)	\$ 9,258	\$ 10,940	\$ 11,630	\$ 20,198	\$ 22,134
Fee income (US\$)					
Investment management fees (US\$)	152	149	160	301	321
Performance fees (US\$)	(2)	(4)	(8)	(6)	(17)
Service fees (US\$)	28	28	29	56	58
Underwriting & distribution fees (US\$)	44	42	47	86	96
Fee income (US\$)	222	215	228	437	458
Core net earnings (loss) (US\$) ⁽¹⁾	15	6	5	21	3
Less: Financing and other expenses (after-tax) (US\$) ⁽¹⁾	(10)	(9)	(11)	(19)	(22)
Reported net earnings (loss) (US\$)	5	(3)	(6)	2	(19)
Pre-tax operating margin ⁽²⁾	9.1%	6.6%	2.2%	7.9%	0.8%
Average assets under management (US\$)	\$ 172,040	\$ 168,049	\$ 172,824	\$ 170,076	\$ 173,180

⁽¹⁾ 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.

⁽²⁾ Pre-tax operating margin (a non-IFRS financial measure) is a measure of the Asset Management business unit's pre-tax core net earnings (loss) divided by the sum of fee income and net investment income.

Sales

Sales in the second quarter of 2019 decreased by \$2.4 billion to US\$9.3 billion compared to the same quarter last year. The decrease was primarily due to a US\$2.0 billion decrease in institutional sales and a US\$0.4 billion decrease in mutual fund sales.

For the six months ended June 30, 2019, sales decreased by US\$1.9 billion to US\$20.2 billion compared to the same period last year, primarily due to a decrease in institutional sales of US\$1.5 billion and a decrease in mutual fund sales of US\$0.4 billion.

Sales in the second quarter of 2019 were US\$9.3 billion compared to US\$10.9 billion in the previous quarter. The decrease was primarily due to a US\$0.9 billion decrease in institutional sales and a US\$0.7 billion decrease 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 second quarter of 2019 decreased by US\$6 million to US\$222 million compared to the same quarter last year. The decrease was primarily due to lower investment management fees, driven by a change in asset mix, as well as lower underwriting and distribution fees, partially offset by higher mutual fund performance fees.

For the six months ended June 30, 2019, fee income of US\$437 million decreased by US\$21 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Fee income for the second quarter of 2019 of US\$222 million increased by US\$7 million compared to the prior quarter, primarily due to higher investment management fees, driven by higher average AUM, and higher performance fees.

Net earnings

Core net earnings (a non-IFRS financial measure) for the second quarter of 2019 increased by US\$10 million to US\$15 million compared to the same quarter last year. The increase was primarily due to higher net investment income on seed capital and lower operating expenses, which included the impact of expense reduction initiatives. These items were partially offset by the lower net fee income driven by a change in asset mix. In the second quarter of 2019, reported net earnings, including financing and other expenses, were US\$5 million compared to a reported net loss of US\$6 million for the same quarter last year. Financing and other expenses for the first quarter of 2019 of US\$10 million were comparable to the same quarter last year.

For the six months ended June 30, 2019, core net earnings increased by US\$18 million to US\$21 million compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results. Reported net earnings, including financing and other expenses, for the six months ended June 30, 2019 were US\$2 million compared to a reported net loss of US\$19 million for the same period last year. Financing and other expenses for the six month period ended June 30, 2019 decreased by US\$3 million to US\$19 million compared to the same period last year, primarily due to lower net financing costs.

Core net earnings for the second quarter of 2019 increased by US\$9 million to US\$15 million compared the previous quarter. The increase in core net earnings was primarily due to the higher net fee income, driven by higher average AUM, and lower operating expenses, partially offset by lower net investment income. Reported net earnings, including financing and other expenses, for the second quarter of 2019 were US\$5 million compared to a reported net loss of US\$3 million for the previous quarter. Financing and other expenses for the second quarter of 2019 were comparable to the previous quarter.

ASSETS UNDER MANAGEMENT

Assets under management (\$US)	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Beginning assets	\$ 170,580	\$ 160,200	\$ 169,468	\$ 160,200	\$ 171,458
Sales - Mutual funds	6,113	6,860	6,479	12,973	13,395
Redemptions - Mutual funds	(6,214)	(6,859)	(5,857)	(13,073)	(13,115)
Net asset flows - Mutual funds	(101)	1	622	(100)	280
Sales - Institutional	3,145	4,080	5,151	7,225	8,739
Redemptions - Institutional	(3,614)	(6,096)	(4,211)	(9,710)	(8,662)
Net asset flows - Institutional	(469)	(2,016)	940	(2,485)	77
Net asset flows - Total	(570)	(2,015)	1,562	(2,585)	357
Impact of market/performance	4,651	12,395	1,415	17,046	630
Ending assets	\$ 174,661	\$ 170,580	\$ 172,445	\$ 174,661	\$ 172,445
<u>Average assets under management</u>					
Mutual funds	81,951	79,484	78,854	80,738	79,128
Institutional assets	90,089	88,565	93,970	89,338	94,052
Total average assets under management	\$ 172,040	\$ 168,049	\$ 172,824	\$ 170,076	\$ 173,180

Average AUM for the three months ended June 30, 2019 were US\$172.0 billion, a decrease of US\$0.8 billion compared to the same quarter last year, primarily due to cumulative institutional fund net asset outflows, partially offset by cumulative mutual fund net asset inflows as well as the impact of market movements. Net asset outflows for the second quarter of 2019 were US\$0.6 billion compared to net asset inflows of US\$1.6 billion in the same quarter last year. In-quarter institutional net asset outflows were US\$0.5 billion and mutual fund net asset outflows were US\$0.1 billion.

Average AUM for the six months ended June 30, 2019 decreased by US\$3.1 billion to US\$170.1 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results. Net asset outflows for the six months ended June 30, 2019 were US\$2.6 billion compared to net asset inflows of US\$0.4 billion in the same period last year. Year-to-date institutional net asset outflows were US\$2.5 billion and mutual fund net asset outflows were US\$0.1 billion.

Average AUM for the three months ended June 30, 2019 increased by US\$4.0 billion compared to the previous quarter, primarily due to the impact of market movements.

UNITED STATES CORPORATE

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

In the second quarter of 2019, net earnings were US\$2 million compared to US\$33 million for the same quarter last year. The second quarter of 2018 included a gain on terminating an interest rate hedge as part of a debt refinancing transaction.

For the six months ended June 30, 2019, net earnings decreased by US\$32 million to US\$1 million compared to the same period in 2018, primarily due to the same reason discussed for the in-quarter results.

In the second quarter of 2019, net earnings were US\$2 million compared to a net loss of US\$1 million in the prior quarter, primarily due to higher net investment income.

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

REINSURED INSURANCE & ANNUITY BUSINESS

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Premiums and deposits ⁽¹⁾	\$ 293	\$ 514	\$ 619	\$ 807	\$ 1,145
Sales	87	321	503	408	862
Fee and other income ⁽²⁾	1,112	45	41	1,157	79
Net earnings	(169)	33	36	(136)	67
Adjusted net earnings ⁽³⁾	30	33	36	63	67
Premiums and deposits (US\$) ⁽¹⁾	\$ 219	\$ 387	\$ 480	\$ 606	\$ 897
Sales (US\$)	65	241	390	306	675
Fee and other income (US\$) ⁽²⁾	830	34	32	864	62
Net earnings (US\$)	(126)	25	27	(101)	51
Adjusted net earnings(US\$) ⁽³⁾	22	25	27	47	51

⁽¹⁾ For the three and six months ended June 30, 2019, premiums and deposits excluded the initial ceded premium of \$13,889 million (US\$10,365 million) related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

⁽²⁾ For the three and six months ended June 30, 2019, fee and other income included a ceding commission of \$1,080 million (US\$806 million) related to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business.

⁽³⁾ Adjusted net earnings - common shareholders and adjusted net earnings (US\$) - common shareholders are non-IFRS financial measures of earnings performance. Adjusted net earnings exclude the net charge of \$199 million (US\$148 million) on the sale, via indemnity reinsurance, of the U.S. individual insurance and annuity business.

Premiums and deposits

Premiums and deposits for the second quarter of 2019 decreased by US\$0.3 billion compared to the same quarter last year, reflecting the timing of the reinsurance transaction with Protective Life during the second quarter of 2019 and lower sales in the individual annuity, executive benefits and retail bank insurance products. Following the sale, via indemnity reinsurance, on June 1, 2019, there are no additional net premiums related to the Reinsured Insurance & Annuity Business unit.

For the six months ended June 30, 2019, premiums and deposits decreased by US\$0.3 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Premiums and deposits for the second quarter of 2019 decreased by US\$0.2 billion compared to the previous quarter, reflecting the timing of the reinsurance transaction with Protective Life during the second quarter of 2019 and lower sales in the individual annuity and individual life products.

Sales

Sales in the second quarter of 2019 and the six months ended June 30, 2019 decreased by US\$325 million and US\$369 million, respectively, compared to the same periods last year, primarily due to the same reasons discussed for premiums and deposits for the same periods. Following the sale, via indemnity reinsurance, on June 1, 2019, there are no new sales related to the Reinsured Insurance & Annuity Business unit.

Sales in the second quarter of 2019 decreased by US\$176 million compared to the previous quarter, primarily due to the same reasons discussed for premiums and deposits for the same periods.

Fee and other income

Fee and other income for the second quarter of 2019 increased by US\$798 million to US\$830 million compared to the same quarter last year, primarily due to a ceding commission of US\$806 million received from Protective Life related to the reinsurance transaction. Excluding the impact of the ceding commission, fee and other income was US\$24 million, a decrease of US\$8 million, reflecting the timing of the reinsurance transaction with Protective Life during the second quarter of 2019.

For the six months ended June 30, 2019, fee and other income increased by US\$802 million to US\$864 million compared to the same period last year. Excluding the impact of the ceding commission of US\$806 million, fee and other income decreased by US\$4 million, primarily due to the same reasons discussed for the in-quarter results.

Fee and other income for the second quarter of 2019 increased by US\$796 million to US\$830 million compared to the previous quarter. Excluding the impact of the ceding commission of US\$806 million, fee and other income decreased by US\$10 million, primarily due to the same reasons discussed for the in-quarter results.

Net earnings

The net loss for the second quarter of 2019 was US\$126 million compared to net earnings of US\$27 million for the same quarter last year. Included in results for the second quarter of 2019 was a net charge of US\$148 million relating to the reinsurance transaction with Protective Life. Excluding this item, adjusted net earnings decreased by US\$5 million compared to the same quarter last year, reflecting the timing of the reinsurance transaction with Protective Life during the second quarter of 2019.

For the six months ended June 30, 2019, the net loss was US\$101 million compared to net earnings of US\$51 million for the same period last year. Excluding the net charge discussed for the in-quarter results, adjusted net earnings decreased by US\$4 million compared to the same quarter last year, primarily due to the same reasons discussed for the in-quarter results.

The net loss for the second quarter of 2019 was US\$126 million compared to net earnings of US\$25 million for the previous quarter. Excluding the net charge discussed for the in-quarter results, adjusted net earnings decreased by US\$3 million compared to the previous quarter, primarily due to the same reasons discussed for the in-quarter results.

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.

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

Selected consolidated financial information - Europe

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Premiums and deposits	\$ 12,371	\$ 16,365	\$ 9,449	\$ 28,736	\$ 19,177
Fee and other income	387	398	395	785	759
Net earnings - common shareholders	282	299	355	581	699
<hr/>					
Total assets	\$ 184,863	\$ 185,951	\$ 181,036		
Proprietary mutual funds and institutional net assets	50,221	49,829	44,229		
Total assets under management	235,084	235,780	225,265		
Other assets under administration	46,483	45,228	41,772		
Total assets under administration⁽¹⁾	\$ 281,567	\$ 281,008	\$ 267,037		

⁽¹⁾ At June 30, 2019, total assets under administration excludes \$8.4 billion of assets managed for other business units within the Lifeco group of companies (\$8.4 billion at March 31, 2019 and \$8.5 billion at June 30, 2018).

2019 DEVELOPMENTS

- As of June 30, 2019, £10 million of pre-tax annualized expense reductions have been achieved relating to the U.K. restructuring program compared to £8 million at March 31, 2019. The Company remains on track to achieve targeted annual expense reductions of £20 million pre-tax by the end of the fourth quarter of 2020 from various sources including process improvements and a reduction in headcount.
- Some market volatility continues with the U.K. due to leave the European Union (EU) on October 31, 2019. Exit negotiations between the U.K. and the EU concluded in the Withdrawal Agreement, which was endorsed by the leaders of the 27 remaining EU countries on November 25, 2018. However, the agreement has not been ratified by the U.K. and EU Parliaments. The Company's U.K. and other European businesses have plans which have been executed, or are ready to be executed, 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 second quarter of 2019, a number of the Company's U.K. mortgage loans and investment properties were impacted as certain U.K. retailers occupying the properties continued to experience financial difficulties, which included a major U.K. retail tenant entering a prepackaged administration. As a result, net earnings were negatively impacted by \$84 million, which included net impairment charges of \$16 million on mortgage loans as well as reductions in expected cash flows for mortgages and investment properties where these retailers are tenants that resulted in an increase in insurance contract liabilities and negatively impacted net earnings by \$68 million.
- During the second quarter of 2019, the Company accepted a long-term longevity reinsurance agreement covering a £2.5 billion portfolio of U.K. pension obligations.
- Assekuranz Rating-Agentur GmbH (Assekurata), a German financial strength rating agency, reconfirmed the AA-Financial Strength Rating of Canada Life Assurance Europe plc, a subsidiary of the Company.
- During the second quarter of 2019, Irish Life Group Limited, a subsidiary of the Company, launched the MyLife platform into the Irish market. MyLife is a personalized health and wellness application that inspires people to lead a healthier and more active life.

- During the second quarter of 2019, the Company received the following awards:
 - Canada Life U.K. was awarded the maximum 5 star Defaqto rating for its Level Term Critical Illness and Level Term Life Insurance policies. In addition, the Individual Protection business was voted 1st for service in six out of ten categories in the Defaqto Protection service review.
 - Irish Life Investment Managers won the "Passive Manager of the Year" at the European Pensions Awards 2019.

BUSINESS UNITS – EUROPE

INSURANCE & ANNUITIES

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30	March 31	June 30	June 30	June 30
	2019	2019	2018	2019	2018
Premiums and deposits ⁽¹⁾	\$ 7,936	\$ 11,911	\$ 6,240	\$ 19,847	\$ 12,652
Sales ⁽¹⁾	7,131	11,181	5,535	18,312	11,274
Fee and other income	385	395	392	780	752
Net earnings	207	203	281	410	525

⁽¹⁾ For the three and six months ended June 30, 2019, premiums and deposits and sales exclude \$0.2 billion and \$0.4 billion, respectively, of assets managed for other business units within the Lifeco group of companies (\$0.2 billion and \$0.6 billion for the three and six months ended June 30, 2018 and \$0.2 billion three months ended March 31, 2019).

Premiums and deposits

Premiums and deposits for the second quarter of 2019 increased by \$1.7 billion to \$7.9 billion compared to the same quarter last year, primarily due to higher fund management sales in Ireland and higher bulk annuity sales in the U.K., partially offset by the impact of currency movement. Fund management sales can be highly variable from period to period.

For the six months ended June 30, 2019, premiums and deposits increased by \$7.2 billion to \$19.8 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results. Fund management sales in Ireland reflect the arrangement with NN Investment Partners entered into during the first quarter of 2019.

Premiums and deposits for the second quarter of 2019 decreased by \$4.0 billion compared to the previous quarter, primarily due to lower fund management sales in Ireland, partially offset by higher bulk annuity sales in the U.K.

Sales

Sales for the second quarter of 2019 and the six months ended June 30, 2019 increased by \$1.6 billion and \$7.0 billion, respectively, compared to same periods last year, primarily due to the same reasons discussed for premiums and deposits for the same periods.

Sales for the second quarter of 2019 decreased by \$4.1 billion compared to the previous quarter, primarily due to the same reasons discussed for premiums and deposits for the same period.

Fee and other income

Fee and other income for the second quarter of 2019 decreased by \$7 million to \$385 million compared to the same quarter last year, primarily due to lower other income and investment related fee income in Ireland, which can be highly variable from quarter to quarter, and the impact of currency movement. These items were partially offset by higher management fees in Ireland and Germany.

For the six months ended June 30, 2019, fee and other income increased by \$28 million to \$780 million compared to the same period last year. The increase was primarily due to higher management fees in Ireland and Germany and higher investment related fee income in Ireland, partially offset by lower other income in Ireland and the impact of currency movement.

Fee and other income for the second quarter of 2019 decreased by \$10 million compared to the previous quarter, primarily due to lower investment related fee income in Ireland, partially offset by higher other income in Ireland.

Net earnings

Net earnings for the second quarter of 2019 decreased by \$74 million to \$207 million compared to the same quarter last year. The decrease was primarily due to lower contributions from insurance contract liability basis changes, less favourable impacts of changes to certain income tax estimate and the impact of impairment charges on mortgage loans and reductions in expected property cash flows primarily associated with a U.K. retail tenant entering a prepackaged administration. The decrease was partially offset by the favourable impact of new business from U.K. bulk annuity sales.

Net earnings for the six months ended June 30, 2019 decreased by \$115 million to \$410 million compared to the same period last year. The decrease was primarily due to lower contributions from insurance contract liability basis, the impact of impairment charges on mortgage loans and reductions in expected cash flows discussed for the in-quarter results, higher claims from morbidity experience in Ireland and the impact of changes to certain tax estimates. The decrease was partially offset by the favourable impact of new business.

Net earnings for the second quarter of 2019 increased by \$4 million compared to the previous quarter, primarily due to the favourable impact of new business and favourable morbidity experience, partially offset by lower contributions from insurance contract liability basis changes and the impact of impairment charges on mortgage loans and reductions in expected cash flows discussed for the in-quarter results.

REINSURANCE

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Premiums and deposits	\$ 4,435	\$ 4,454	\$ 3,209	\$ 8,889	\$ 6,525
Fee and other income	2	3	3	5	7
Net earnings	77	97	97	174	201

Premiums and deposits

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

Premiums and deposits for the second quarter of 2019 increased from \$3.2 billion to \$4.4 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 six months ended June 30, 2019, premiums and deposits increased by \$2.4 billion to \$8.9 billion compared to the same period last year, primarily due to the same reasons discussed for the in-quarter results.

Premiums and deposits for the second quarter of \$4.4 billion are comparable to the previous quarter.

Fee and other income

Fee and other income for the first quarter of 2019 of \$2 million was comparable to the same quarter last year and to the previous quarter.

For the six months ended June 30, 2019, fee and other income of \$5 million was comparable to the same period last year.

Net earnings

Net earnings for the second quarter of 2019 decreased by \$20 million to \$77 million compared to the same quarter last year. The decrease was primarily due to lower contributions from insurance contract liability basis changes and unfavourable initial impacts from new business, partially offset by higher business volumes.

For the six months ended June 30, 2019, net earnings decreased by \$27 million to \$174 million compared to the same period last year. The decrease was primarily due to unfavourable initial impacts from new business, less favourable claims experience in the life and annuity business and lower contributions from insurance contract liability basis changes. The decrease was partially offset by higher business volumes.

Net earnings for the second quarter of 2019 decreased by \$20 million compared to the previous quarter, primarily due to lower contributions from insurance contract liability basis changes and unfavourable initial impacts from new business. These items were partially offset by higher business volumes and favourable claims experience in the life and annuity business.

EUROPE CORPORATE

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

In the second quarter of 2019, Europe Corporate had a net loss of \$2 million compared to a net loss of \$23 million for the same quarter last year, primarily due to the impact of changes to certain income tax estimates and lower corporate expenses.

For the six months ended June 30, 2019, Europe Corporate had a net loss of \$3 million compared to a net loss of \$27 million for the same period last year, primarily due to the same reasons discussed for the in-quarter results.

For the three months ended June 30, 2019, Europe Corporate had a net loss of \$2 million compared to a net loss of \$1 million for the previous quarter, primarily due to higher corporate expenses.

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.

For the three months ended June 30, 2019, Lifeco Corporate had a net loss of \$5 million compared to a net loss of \$3 million for the same period in 2018, primarily due to higher operating expenses.

For the six months ended June 30, 2019, Lifeco Corporate had a net loss of \$11 million, an increase from a net loss of \$7 million for the same period last year, primarily due to higher operating expenses.

The net loss for the three months ended June 30, 2019 of \$5 million decreased from a net loss of \$6 million in the previous quarter. The increase was primarily due to higher net investment income, partially offset by higher operating expenses.

RISK MANAGEMENT AND CONTROL PRACTICES

The Company's Enterprise Risk Management (ERM) Framework facilitates the alignment of business strategy with risk appetite, informs and improves the deployment of capital; and supports the identification, mitigation and management of exposure to 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 second quarter of 2019, there were no significant changes to the Company's risk management and control practices. Refer to the Company's 2018 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 2019, 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, 2019, the Company applied IFRIC 23, *Uncertainty over Income Tax Treatments* (IFRIC 23). The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The application of the interpretation of the standard resulted in a decrease of \$109 million to opening accumulated surplus at January 1, 2019, reflecting \$52 million for Canada and \$57 million for Europe.

Effective January 1, 2019, the Company adopted IFRS 16, *Leases* (IFRS 16) which replaces IAS 17, *Leases* (IAS 17). The standard prescribes new guidance for identifying leases as well as the accounting, measurement and presentation of leases by the lessee. The Company has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 has not been restated.

For a further description of the impact of the accounting policy change, refer to note 2 of the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2019.

The Company adopted the narrow scope amendments to International Financial Reporting Standards (IFRS) for IAS 28, *Investments in Associates and Joint Ventures*, IAS 19, *Employee Benefits*, and *Annual Improvements 2015 - 2017 Cycle* for the amendments to IFRS 3, *Business Combinations*, IFRS 11, *Joint Arrangements*, IAS 12, *Income Taxes*, and IAS 23, *Borrowing Costs*, effective January 1, 2019. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

In June 2019, the IASB issued an Exposure Draft, which provided targeted amendments to IFRS 17, *Insurance Contracts*. The Exposure Draft is open for comment until September 2019 with final amendments to the standard expected to be released in mid-2020. The Company is evaluating the potential impact these amendments may have on the Company.

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, 2018 Annual MD&A.

OTHER INFORMATION

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

There have been no changes during the six month period ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

TRANSACTIONS WITH RELATED PARTIES

As part of the substantial issuer bid, Power Financial Corporation (Power Financial), Lifeco's parent company, and IGM Financial Inc. (IGM), a member of the Power Financial Corporation group of companies, participated in the Offer. IGM tendered its Lifeco common shares proportionately. Power Financial tendered a portion of its Lifeco common shares on a proportionate basis and all remaining on a non-proportionate basis and this did not impact Power Financial's voting control of the Company. Power Financial and IGM effected their tender offers through a Qualifying Holdco Alternative, which the Company also offered to other shareholders, to assist them in achieving certain Canadian tax objectives.

No other related party transactions have changed materially from December 31, 2018.

QUARTERLY FINANCIAL INFORMATION

Quarterly financial information (in \$ millions, except per share amounts)	2019		2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	Total revenue⁽¹⁾⁽²⁾	\$ 2,746	\$ 16,889	\$ 11,699	\$ 12,027	\$ 10,613	\$ 9,693	\$ 12,912
Common shareholders								
Net earnings								
Total	\$ 459	\$ 657	\$ 710	\$ 689	\$ 831	\$ 731	\$ 392	\$ 581
Basic - per share	0.489	0.665	0.719	0.697	0.839	0.740	0.397	0.587
Diluted - per share	0.489	0.665	0.719	0.697	0.839	0.739	0.396	0.587
Adjusted net earnings⁽³⁾								
Total	\$ 658	\$ 657	\$ 710	\$ 745	\$ 831	\$ 731	\$ 734	\$ 582
Basic - per share	0.701	0.665	0.719	0.754	0.839	0.740	0.742	0.589
Diluted - per share	0.700	0.665	0.719	0.753	0.839	0.739	0.741	0.588

⁽¹⁾ Revenue includes the changes in fair value through profit or loss on investment assets, an initial premium ceded to Protective Life (\$13,889 million for the three months ended June 30, 2019) and a ceding commission received from Protective Life (\$1,080 million for the three months ended June 30, 2019) related to the sale, via indemnity reinsurance, of the individual life insurance and annuity business.

⁽²⁾ 2017 comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers*, as described in note 2 to the Company's December 31, 2018 annual consolidated financial statements.

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

	2019		2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net charge on the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business	\$ 199	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Restructuring costs	—	—	—	56	—	—	4	1
Net charge on sale of equity investment	—	—	—	—	—	—	122	—
U.S. tax reform impact	—	—	—	—	—	—	216	—
Total Adjustments	\$ 199	\$ —	\$ —	\$ 56	\$ —	\$ —	\$ 342	\$ 1

Lifeco's consolidated net earnings attributable to common shareholders were \$459 million for the second quarter of 2019 compared to \$831 million reported a year ago. On a per share basis, this represents \$0.489 per common share (\$0.489 diluted) for the second quarter of 2019 compared to \$0.839 per common share (\$0.839 diluted) a year ago.

Total revenue for the second quarter of 2019 was \$2,746 million and comprises negative premium income of \$3,887 million, regular net investment income of \$1,797 million, a positive change in fair value through profit or loss on investment assets of \$2,245 million and fee and other income of \$2,591 million. As a result of the sale, via indemnity reinsurance, of the individual life insurance and annuity business to Protective Life, negative premium income included \$13,889 million of premiums ceded to Protective Life and fee and other income included \$1,080 million of ceding commission received from Protective life.

TRANSLATION OF FOREIGN CURRENCY

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

Translation of foreign currency						
Period ended	June 30 2019	Mar. 31 2019	Dec. 31 2018	Sept. 30 2018	June 30 2018	Mar. 31 2018
United States dollar						
Balance sheet	\$ 1.31	\$ 1.34	\$ 1.36	\$ 1.29	\$ 1.31	\$ 1.29
Income and expenses	\$ 1.34	\$ 1.33	\$ 1.32	\$ 1.31	\$ 1.29	\$ 1.26
British pound						
Balance sheet	\$ 1.66	\$ 1.74	\$ 1.74	\$ 1.69	\$ 1.73	\$ 1.81
Income and expenses	\$ 1.72	\$ 1.73	\$ 1.70	\$ 1.70	\$ 1.76	\$ 1.76
Euro						
Balance sheet	\$ 1.49	\$ 1.50	\$ 1.56	\$ 1.50	\$ 1.53	\$ 1.59
Income and expenses	\$ 1.50	\$ 1.51	\$ 1.51	\$ 1.52	\$ 1.54	\$ 1.55

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

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

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Income					
Premium income					
Gross premiums written	\$ 11,148	\$ 10,703	\$ 9,012	\$ 21,851	\$ 18,305
Ceded premiums	(15,035)	(1,108)	(1,107)	(16,143)	(2,226)
Total net premiums	<u>(3,887)</u>	9,595	7,905	<u>5,708</u>	16,079
Net investment income (note 6)					
Regular net investment income	1,797	1,450	1,575	3,247	3,148
Changes in fair value through profit or loss	2,245	4,365	(350)	6,610	(1,837)
Total net investment income	<u>4,042</u>	5,815	1,225	<u>9,857</u>	1,311
Fee and other income	2,591	1,479	1,483	4,070	2,916
	<u>2,746</u>	16,889	10,613	<u>19,635</u>	20,306
Benefits and expenses					
Policyholder benefits					
Gross	9,214	9,164	7,742	18,378	15,738
Ceded	(672)	(617)	(596)	(1,289)	(1,221)
Total net policyholder benefits	<u>8,542</u>	8,547	7,146	<u>17,089</u>	14,517
Policyholder dividends and experience refunds	415	440	442	855	900
Changes in insurance and investment contract liabilities	(8,987)	4,925	(32)	(4,062)	(1,081)
Total paid or credited to policyholders	<u>(30)</u>	13,912	7,556	<u>13,882</u>	14,336
Commissions	598	610	596	1,208	1,190
Operating and administrative expenses	1,374	1,301	1,241	2,675	2,478
Premium taxes	125	130	124	255	245
Financing charges	72	72	11	144	82
Amortization of finite life intangible assets	54	53	50	107	99
Earnings before income taxes	<u>553</u>	811	1,035	<u>1,364</u>	1,876
Income taxes (note 15)	53	130	153	183	230
Net earnings before non-controlling interests	<u>500</u>	681	882	<u>1,181</u>	1,646
Attributable to non-controlling interests	7	(9)	18	(2)	18
Net earnings	<u>493</u>	690	864	<u>1,183</u>	1,628
Preferred share dividends (note 12)	34	33	33	67	66
Net earnings - common shareholders	<u>\$ 459</u>	\$ 657	\$ 831	<u>\$ 1,116</u>	\$ 1,562
Earnings per common share (note 12)					
Basic	<u>\$ 0.489</u>	\$ 0.665	\$ 0.839	<u>\$ 1.159</u>	\$ 1.579
Diluted	<u>\$ 0.489</u>	\$ 0.665	\$ 0.839	<u>\$ 1.158</u>	\$ 1.578

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

	For the three months ended			For the six months ended	
	June 30	March 31	June 30	June 30	June 30
	2019	2019	2018	2019	2018
Net earnings	\$ 493	\$ 690	\$ 864	\$ 1,183	\$ 1,628
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	(466)	(214)	(339)	(680)	416
Unrealized foreign exchange gains (losses) on euro debt designated as hedges of the net investment in foreign operations	10	60	60	70	(20)
Income tax (expense) benefit	(1)	(8)	(8)	(9)	3
Unrealized gains (losses) on available-for-sale assets	93	159	(15)	252	(102)
Income tax (expense) benefit	(16)	(29)	5	(45)	20
Realized (gains) losses on available-for-sale assets	(23)	(5)	4	(28)	5
Income tax expense (benefit)	3	—	(1)	3	(1)
Unrealized gains (losses) on cash flow hedges	1	1	(3)	2	23
Income tax (expense) benefit	—	—	1	—	(4)
Realized (gains) losses on cash flow hedges	—	—	(81)	—	(69)
Income tax expense (benefit)	—	—	20	—	17
Non-controlling interests	(12)	(66)	6	(78)	16
Income tax (expense) benefit	4	12	(2)	16	(6)
Total items that may be reclassified	(407)	(90)	(353)	(497)	298
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)	(184)	(114)	150	(298)	196
Income tax (expense) benefit	41	26	(34)	67	(43)
Non-controlling interests	16	11	(10)	27	(12)
Income tax (expense) benefit	(4)	(3)	2	(7)	3
Total items that will not be reclassified	(131)	(80)	108	(211)	144
Total other comprehensive income (loss)	(538)	(170)	(245)	(708)	442
Comprehensive income (loss)	\$ (45)	\$ 520	\$ 619	\$ 475	\$ 2,070

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

	June 30 2019	December 31 2018
Assets		
Cash and cash equivalents	\$ 3,835	\$ 4,168
Bonds (note 6)	113,627	124,862
Mortgage loans (note 6)	23,605	25,014
Stocks (note 6)	9,833	9,290
Investment properties (note 6)	5,416	5,218
Loans to policyholders	8,917	8,929
	<u>165,233</u>	<u>177,481</u>
Assets held for sale (note 4)	857	897
Funds held by ceding insurers	8,959	9,251
Goodwill	6,492	6,548
Intangible assets	3,866	3,976
Derivative financial instruments	655	417
Owner occupied properties	732	731
Fixed assets	452	448
Other assets	2,956	2,567
Premiums in course of collection, accounts and interest receivable	5,718	5,202
Reinsurance assets (note 9)	20,479	6,126
Current income taxes	222	218
Deferred tax assets	906	981
Investments on account of segregated fund policyholders (note 10)	221,092	209,527
Investments on account of segregated fund policyholders held for sale (note 4)	3,278	3,319
Total assets	<u>\$ 441,897</u>	<u>\$ 427,689</u>
Liabilities		
Insurance contract liabilities (note 9)	\$ 171,490	\$ 166,720
Investment contract liabilities (note 9)	1,714	1,711
Liabilities held for sale (note 4)	857	897
Debentures and other debt instruments	6,331	6,459
Funds held under reinsurance contracts	1,381	1,367
Derivative financial instruments	1,186	1,562
Accounts payable	3,401	3,262
Other liabilities	4,547	3,855
Current income taxes	508	402
Deferred tax liabilities	1,157	1,210
Investment and insurance contracts on account of segregated fund policyholders (note 10)	221,092	209,527
Investment and insurance contracts on account of segregated fund policyholders held for sale (note 4)	3,278	3,319
Total liabilities	<u>416,942</u>	<u>400,291</u>
Equity		
Non-controlling interests		
Participating account surplus in subsidiaries	2,756	2,737
Non-controlling interests in subsidiaries	125	138
Shareholders' equity		
Share capital		
Preferred shares	2,714	2,714
Common shares (note 11)	5,632	7,283
Accumulated surplus	13,231	13,342
Accumulated other comprehensive income	337	1,045
Contributed surplus	160	139
Total equity	<u>24,955</u>	<u>27,398</u>
Total liabilities and equity	<u>\$ 441,897</u>	<u>\$ 427,689</u>

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

	June 30, 2019					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	\$ 9,997	\$ 139	\$ 13,342	\$ 1,045	\$ 2,875	\$ 27,398
Change in accounting policy (note 2)	—	—	(109)	—	—	(109)
Revised balance, beginning of year	9,997	139	13,233	1,045	2,875	27,289
Net earnings (loss)	—	—	1,183	—	(2)	1,181
Other comprehensive income (loss)	—	—	—	(708)	42	(666)
	9,997	139	14,416	337	2,915	27,804
Dividends to shareholders						
Preferred shareholders (note 12)	—	—	(67)	—	—	(67)
Common shareholders	—	—	(791)	—	—	(791)
Shares exercised and issued under share-based payment plans (note 11)	25	(32)	—	—	29	22
Share-based payment plans expense	—	20	—	—	—	20
Equity settlement of Putnam share-based plans	—	—	—	—	(26)	(26)
Shares purchased and cancelled under Substantial Issuer Bid (note 11)	(2,000)	—	—	—	—	(2,000)
Excess of redemption proceeds over stated capital per Substantial Issuer Bid (note 11)	1,628	—	(1,628)	—	—	—
Common share carrying value adjustment per Substantial Issuer Bid (note 11)	(1,304)	—	1,304	—	—	—
Substantial Issuer Bid transaction costs (note 11)	—	—	(3)	—	—	(3)
Shares cancelled under Putnam share-based plans	—	33	—	—	(37)	(4)
Balance, end of period	\$ 8,346	\$ 160	\$ 13,231	\$ 337	\$ 2,881	\$ 24,955
	June 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	—	—	(64)	—	—	(64)
Revised balance, beginning of year	9,974	143	12,034	386	2,935	25,472
Net earnings	—	—	1,628	—	18	1,646
Other comprehensive income (loss)	—	—	—	442	(1)	441
	9,974	143	13,662	828	2,952	27,559
Dividends to shareholders						
Preferred shareholders (note 12)	—	—	(66)	—	—	(66)
Common shareholders	—	—	(770)	—	—	(770)
Shares exercised and issued under share-based payment plans (note 11)	37	(41)	—	—	36	32
Share-based payment plans expense	—	26	—	—	—	26
Equity settlement of Putnam share-based plans	—	—	—	—	(57)	(57)
Shares purchased and cancelled under Normal Course Issuer Bid (note 11)	(29)	—	—	—	—	(29)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 11)	23	—	(23)	—	—	—
Acquisition of PanAgora non-controlling interest	—	—	(54)	—	(21)	(75)
Dilution loss on non-controlling interests	—	—	(7)	—	7	—
Balance, end of period	\$ 10,005	\$ 128	\$ 12,742	\$ 828	\$ 2,917	\$ 26,620

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

	For the six months ended June 30	
	2019	2018
Operations		
Earnings before income taxes	\$ 1,364	\$ 1,876
Income taxes paid, net of refunds received	(144)	(203)
Adjustments:		
Change in insurance and investment contract liabilities	9,169	(933)
Change in funds held by ceding insurers	97	328
Change in funds held under reinsurance contracts	76	(11)
Change in reinsurance assets	(798)	(24)
Changes in fair value through profit or loss	(6,610)	1,837
Other	394	(552)
	3,548	2,318
Financing Activities		
Issue of common shares (note 11)	25	37
Purchased and cancelled common shares (note 11)	(2,000)	(29)
Substantial issuer bid transaction costs	(3)	—
Issue of debentures and senior notes	—	1,512
Repayment of debentures	—	(1,096)
Decrease in line of credit of subsidiary	(87)	(120)
Increase in debentures and other debt instruments	124	—
Dividends paid on common shares	(791)	(770)
Dividends paid on preferred shares	(67)	(66)
	(2,799)	(532)
Investment Activities		
Bond sales and maturities	13,067	13,151
Mortgage loan repayments	1,161	1,432
Stock sales	1,397	943
Investment property sales	8	20
Change in loans to policyholders	(262)	(110)
Proceeds from assets held for sale	—	169
Business acquisitions, net of cash and cash equivalents acquired	—	(222)
Change in cash and cash equivalents classified as assets held for sale (note 4)	30	—
Investment in bonds	(13,073)	(13,241)
Investment in mortgage loans	(2,004)	(2,362)
Investment in stocks	(986)	(1,236)
Investment in investment properties	(276)	(162)
	(938)	(1,618)
Effect of changes in exchange rates on cash and cash equivalents	(144)	75
Increase (decrease) in cash and cash equivalents	(333)	243
Cash and cash equivalents, beginning of period	4,168	3,551
Cash and cash equivalents, end of period	\$ 3,835	\$ 3,794
Supplementary cash flow information		
Interest income received	\$ 2,821	\$ 2,694
Interest paid	155	146
Dividend income received	144	124

CONDENSED NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

(in Canadian \$ millions except per share amounts)

1. Corporate Information

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

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

The condensed consolidated interim unaudited financial statements (financial statements) of the Company as at and for the three and six months ended June 30, 2019 were approved by the Board of Directors on July 30, 2019.

2. Basis of Presentation and Summary of Accounting Policies

These financial statements should be read in conjunction with the Company's December 31, 2018 consolidated annual audited financial statements and notes thereto.

The financial statements of the Company at June 30, 2019 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, 2018 except as described below.

Changes in Accounting Policies

Effective January 1, 2019, the Company applied IFRIC 23, *Uncertainty over Income Tax Treatments* (IFRIC 23). The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under IFRIC 23, a provision for tax uncertainties which meet the probable threshold for recognition is measured based on the amount most likely to occur. The provision for tax uncertainties will be classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date. The application of the interpretation of the standard resulted in a decrease of \$109 to opening accumulated surplus at January 1, 2019.

Effective January 1, 2019, the Company adopted IFRS 16, *Leases* (IFRS 16) which replaces IAS 17, *Leases* (IAS 17). The standard prescribes new guidance for identifying leases as well as the accounting, measurement and presentation of leases by the lessee. Under IFRS 16, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date on the Consolidated Balance Sheets.

The right-of-use asset is initially measured based on the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The asset is depreciated to the earlier of the useful life of the right-of-use asset or the lease term using the straight-line method. Depreciation expense on right-of-use assets is included within operating and administrative expenses.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily

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

determined, the Company shall use its incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as its discount rate. The lease liability is measured at amortized cost using the effective interest method and is included within other liabilities. Interest expense on lease liabilities is included within operating and administrative expenses.

The Company has elected to apply a practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

The Company has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to measure right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any lease related balances relating to that lease recognized on the Consolidated Balance Sheets immediately before the date of initial application. At January 1, 2019, right-of-use assets of \$551 were recognized (\$522 within other assets and \$29 within investment properties) and lease liabilities of \$551 were recognized within other liabilities. Lease related balances included within accounts payable on the Consolidated Balance Sheets at December 31, 2018 of \$62 were reclassified to decrease right-of-use assets recognized to \$489 at January 1, 2019. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 3.82%.

The following table reconciles the Company's operating lease obligations at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	\$	900
Discounting using the incremental borrowing rate at January 1, 2019		(170)
Non-lease components included in operating lease commitments		(110)
Leases not yet commenced at January 1, 2019 included in operating lease commitments		(57)
Short-term leases included in operating lease commitments		(6)
Low-value leases included in operating lease commitments		(6)
Lease liabilities recognized at January 1, 2019	\$	551

The Company adopted the narrow scope amendments to International Financial Reporting Standards (IFRS) for IAS 28, *Investments in Associates and Joint Ventures*, IAS 19, *Employee Benefits*, and *Annual Improvements 2015 - 2017 Cycle* for the amendments to IFRS 3, *Business Combinations*, IFRS 11, *Joint Arrangements*, IAS 12, *Income Taxes* and IAS 23, *Borrowing Costs*, effective January 1, 2019. 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, as disclosed in the December 31, 2018 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, 2018 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 and Other Transactions

(a) U.S. Individual Life Insurance and Annuity Business Reinsurance Agreement

On January 24, 2019, Great-West Financial announced that it had entered into an agreement with Protective Life Insurance Company (Protective Life) to sell, via indemnity reinsurance, substantially all of its individual life insurance and annuity business in its United States segment. The transaction was completed on June 1, 2019. The Consolidated Balance Sheets were impacted by the transfer of \$15,595 of invested assets to Protective Life (note 6), recognition of \$14,939 of reinsurance assets (note 9) and \$1,069 of cash received as a result of the transaction. Within the Consolidated Statements of Earnings, the Company recognized increases of \$13,889 to ceded premiums, \$1,080 to fee and other income, \$219 to total net investment income (note 6) and \$116 to operating and administrative expenses, as well as a decrease of \$12,463 to total paid or credited to policyholders. The net loss resulting from the transaction was \$247 (\$199 after-tax) (note 16).

(b) 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.

During the second quarter of 2019, the comprehensive valuation of the fair value of the net assets acquired, including intangible assets and completion of the final purchase price allocation, was finalized with no significant adjustment to goodwill. Revenue and net earnings of Invesco Ltd. (Ireland) were not significant to the results of the Company.

4. Assets Held for Sale

Sale of policies to Scottish Friendly

In 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, comprised of unit-linked policies and non unit-linked policies. The transfer of these policies is expected to occur in the second half of 2019, as part of the United Kingdom Business Transformation (note 5). The composition of the assets and liabilities of the disposal group classified as assets held for sale are as follows:

	June 30	December 31
	2019	2018
Assets		
Cash and cash equivalents	\$ 78	\$ 112
Bonds	728	731
Stocks	23	22
Investment properties	25	29
Loans to policyholders	3	3
Assets held for sale	857	897
Investments on account of segregated fund policyholders	3,278	3,319
Total assets included in disposal group classified as held for sale	\$ 4,135	\$ 4,216
Liabilities		
Insurance contract liabilities	\$ 836	\$ 870
Investment contract liabilities	21	27
Liabilities held for sale	857	897
Investment and insurance contracts on account of segregated fund policyholders	3,278	3,319
Total liabilities included in disposal group classified as held for sale	\$ 4,135	\$ 4,216

The composition of assets and liabilities of the disposal group will be finalized after a comprehensive evaluation of the fair value of the assets and liabilities to be transferred has been completed. Net earnings from the disposal of these policies are not expected to be material to the consolidated financial statements.

5. Restructuring Expenses

United Kingdom Business Transformation

At June 30, 2019, the Company has a restructuring provision of \$50 remaining in other liabilities. The change in the restructuring provision for the United Kingdom Business Transformation is set out below:

Balance, beginning of year	\$	61
Amounts used		(9)
Changes in foreign exchange rates		(2)
Balance, end of period	\$	50

6. Portfolio Investments

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

	June 30, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss ⁽¹⁾	\$ 82,494	\$ 82,494	\$ 90,015	\$ 90,015
Classified fair value through profit or loss ⁽¹⁾	1,903	1,903	1,886	1,886
Available-for-sale	12,260	12,260	13,239	13,239
Loans and receivables	16,970	18,858	19,722	20,619
	113,627	115,515	124,862	125,759
Mortgage loans				
Residential				
Designated fair value through profit or loss ⁽¹⁾	979	979	813	813
Loans and receivables	9,402	9,663	9,721	9,808
	10,381	10,642	10,534	10,621
Commercial	13,224	13,907	14,480	14,790
	23,605	24,549	25,014	25,411
Stocks				
Designated fair value through profit or loss ⁽¹⁾	9,178	9,178	8,658	8,658
Available-for-sale	14	14	11	11
Available-for-sale, at cost ⁽²⁾	287	287	267	267
Equity method	354	349	354	293
	9,833	9,828	9,290	9,229
Investment properties	5,416	5,416	5,218	5,218
Total ⁽³⁾	\$ 152,481	\$ 155,308	\$ 164,384	\$ 165,617

⁽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⁾ As a result of the reinsurance transaction with Protective Life (note 3), invested assets were transferred.

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6. Portfolio Investments (cont'd)

(b) Included in portfolio investments are the following:

Carrying amount of impaired investments

	June 30 2019	December 31 2018
Impaired amounts by classification		
Fair value through profit or loss	\$ 134	\$ 178
Available-for-sale	19	30
Loans and receivables	35	28
Total	\$ 188	\$ 236

The carrying amount of impaired investments includes \$153 bonds and \$35 mortgage loans at June 30, 2019 (\$202 bonds, \$24 mortgage loans and \$10 stocks at December 31, 2018). The above carrying values for loans and receivables are net of allowances of \$51 at June 30, 2019 and \$20 at December 31, 2018.

(c) Net investment income comprises the following:

For the three months ended June 30, 2019	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 1,100	\$ 230	\$ 77	\$ 92	\$ 156	\$ 1,655
Net realized gains						
Available-for-sale	14	—	8	—	—	22
Other classifications ⁽¹⁾	147	85	—	—	—	232
Net allowances for credit losses on loans and receivables	—	(45)	—	—	—	(45)
Other income (expenses)	—	—	—	(26)	(41)	(67)
	1,261	270	85	66	115	1,797
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	20	—	—	—	—	20
Designated fair value through profit or loss	2,135	23	157	—	(124)	2,191
Recorded at fair value through profit or loss	—	—	—	34	—	34
	2,155	23	157	34	(124)	2,245
Total	\$ 3,416	\$ 293	\$ 242	\$ 100	\$ (9)	\$ 4,042

⁽¹⁾ Includes realized gains from invested assets transferred as a result of the reinsurance transaction with Protective Life (note 3).

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6. Portfolio Investments (cont'd)

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

For the six months ended June 30, 2019	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,127	\$ 465	\$ 143	\$ 179	\$ 247	\$ 3,161
Net realized gains						
Available-for-sale	15	—	12	—	—	27
Other classifications ⁽¹⁾	151	87	—	—	—	238
Net allowances for credit losses on loans and receivables	—	(48)	—	—	—	(48)
Other income (expenses)	—	—	—	(54)	(77)	(131)
	<u>2,293</u>	<u>504</u>	<u>155</u>	<u>125</u>	<u>170</u>	<u>3,247</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	58	—	—	—	—	58
Designated fair value through profit or loss	5,411	78	1,031	—	3	6,523
Recorded at fair value through profit or loss	—	—	—	29	—	29
	<u>5,469</u>	<u>78</u>	<u>1,031</u>	<u>29</u>	<u>3</u>	<u>6,610</u>
Total	<u>\$ 7,762</u>	<u>\$ 582</u>	<u>\$ 1,186</u>	<u>\$ 154</u>	<u>\$ 173</u>	<u>\$ 9,857</u>

⁽¹⁾ Includes realized gains from invested assets transferred as a result of the reinsurance transaction with Protective Life (note 3).

GREAT-WEST LIFECO INC.

6. Portfolio Investments (cont'd)

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

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), an affiliated company controlled by Power Financial. 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.

7. 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 2018 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, 2018 consolidated annual audited financial statements.

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, 2018.

(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.

7. 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.

7. Financial Instruments Risk Management (cont'd)

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

- At June 30, 2019 and December 31, 2018, the effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.
- At June 30, 2019 and December 31, 2018, the effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios results in interest rate changes to assets and liabilities that will offset each other with no impact to net earnings.

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

	June 30, 2019		December 31, 2018	
	1% increase	1% decrease	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (117)	\$ 629	\$ (165)	\$ 639
Increase (decrease) in net earnings	\$ 74	\$ (457)	\$ 115	\$ (465)

(iii) Equity Risk

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

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

	June 30, 2019		December 31, 2018	
	10% increase	10% decrease	10% increase	10% decrease
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (82)	\$ 163	\$ (87)	\$ 338
Increase (decrease) in net earnings	\$ 69	\$ (132)	\$ 73	\$ (266)

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

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

	June 30, 2019		December 31, 2018	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions for equities				
Increase (decrease) in non-participating insurance contract liabilities	\$ (590)	\$ 676	\$ (591)	\$ 680
Increase (decrease) in net earnings	\$ 474	\$ (534)	\$ 476	\$ (539)

8. **Fair Value Measurement**

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

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

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

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

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8. Fair Value Measurement (cont'd)

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

Assets measured at fair value	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,835	\$ —	\$ —	\$ 3,835
Financial assets at fair value through profit or loss				
Bonds	—	84,330	67	84,397
Mortgage loans	—	—	979	979
Stocks	8,668	—	510	9,178
Total financial assets at fair value through profit or loss	8,668	84,330	1,556	94,554
Available-for-sale financial assets				
Bonds	—	12,260	—	12,260
Stocks	10	—	4	14
Total available-for-sale financial assets	10	12,260	4	12,274
Investment properties	—	—	5,416	5,416
Funds held by ceding insurers	177	6,546	—	6,723
Derivatives ⁽¹⁾	—	655	—	655
Reinsurance assets	—	139	—	139
Assets held for sale	101	728	25	854
Other assets:				
Trading account assets	670	390	—	1,060
Other ⁽²⁾	—	145	—	145
Total assets measured at fair value	\$ 13,461	\$ 105,193	\$ 7,001	\$ 125,655
Liabilities measured at fair value				
Derivatives ⁽³⁾	\$ 6	\$ 1,180	\$ —	\$ 1,186
Investment contract liabilities	—	1,713	1	1,714
Investment contract liabilities held for sale	—	—	21	21
Other liabilities	—	145	—	145
Total liabilities measured at fair value	\$ 6	\$ 3,038	\$ 22	\$ 3,066

⁽¹⁾ Excludes collateral received from counterparties of \$284.

⁽²⁾ Includes collateral received under securities lending agreements.

⁽³⁾ Excludes collateral pledged to counterparties of \$347.

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

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8. Fair Value Measurement (cont'd)

Assets measured at fair value	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 4,168	\$ —	\$ —	\$ 4,168
Financial assets at fair value through profit or loss				
Bonds	—	91,834	67	91,901
Mortgage loans	—	—	813	813
Stocks	8,254	—	404	8,658
Total financial assets at fair value through profit or loss	8,254	91,834	1,284	101,372
Available-for-sale financial assets				
Bonds	—	13,239	—	13,239
Stocks	9	—	2	11
Total available-for-sale financial assets	9	13,239	2	13,250
Investment properties	—	—	5,218	5,218
Funds held by ceding insurers	230	6,925	—	7,155
Derivatives ⁽¹⁾	8	409	—	417
Assets held for sale	134	731	29	894
Other assets:				
Trading account assets	597	246	—	843
Other ⁽²⁾	—	84	—	84
Total assets measured at fair value	<u>\$ 13,400</u>	<u>\$ 113,468</u>	<u>\$ 6,533</u>	<u>\$ 133,401</u>
Liabilities measured at fair value				
Derivatives ⁽³⁾	\$ 2	\$ 1,560	\$ —	\$ 1,562
Investment contract liabilities	—	1,711	—	1,711
Investment contract liabilities held for sale	—	1	26	27
Other liabilities	—	84	—	84
Total liabilities measured at fair value	<u>\$ 2</u>	<u>\$ 3,356</u>	<u>\$ 26</u>	<u>\$ 3,384</u>

⁽¹⁾ Excludes collateral received from counterparties of \$109.

⁽²⁾ Includes collateral received under securities lending arrangements.

⁽³⁾ Excludes collateral pledged to counterparties of \$612.

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

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8. Fair Value Measurement (cont'd)

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

June 30, 2019										
	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	Assets held for sale	Total Level 3 assets	Investment contract liabilities	Liabilities held for sale	Total Level 3 liabilities
Balance, beginning of year	\$ 67	\$ 813	\$ 404	\$ 2	\$ 5,218	\$ 29	\$ 6,533	\$ —	\$ 26	\$ 26
Change in accounting policy (note 2)	—	—	—	—	29	—	29	—	—	—
Revised balance, beginning of year	67	813	404	2	5,247	29	6,562	—	26	26
Total gains (losses)										
Included in net earnings	3	78	22	—	29	(4)	128	—	—	—
Included in other comprehensive income ⁽¹⁾	(3)	(42)	—	—	(128)	—	(173)	—	—	—
Purchases	—	—	108	2	276	—	386	—	—	—
Issues	—	164	—	—	—	—	164	—	—	—
Sales	—	—	(24)	—	(8)	—	(32)	—	—	—
Settlements	—	(34)	—	—	—	—	(34)	—	—	—
Other	—	—	—	—	—	—	—	1	(5)	(4)
Transfers into Level 3	—	—	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—	—	—
Balance, end of period	\$ 67	\$ 979	\$ 510	\$ 4	\$ 5,416	\$ 25	\$ 7,001	\$ 1	\$ 21	\$ 22
Total gains (losses) for the period included in net investment income	\$ 3	\$ 78	\$ 22	\$ —	\$ 29	\$ (4)	\$ 128	\$ —	\$ —	\$ —
Change in unrealized gains (losses) for the period included in earnings for assets held at June 30, 2019	\$ 3	\$ 78	\$ 22	\$ —	\$ 29	\$ (4)	\$ 128	\$ —	\$ —	\$ —

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

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8. Fair Value Measurement (cont'd)

December 31, 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	Assets held for sale	Total Level 3 assets	Investment contract liabilities	Liabilities held for sale	Total Level 3 liabilities
Balance, beginning of year	\$ 65	\$ —	\$ 243	\$ 1	\$ 4,851	\$ —	\$ 5,160	\$ 22	\$ —	\$ 22
Total gains (losses)										
Included in net earnings	—	(24)	20	—	33	—	29	—	—	—
Included in other comprehensive income ⁽¹⁾	2	20	—	—	70	—	92	—	—	—
Business acquisition	—	799	—	—	—	—	799	—	—	—
Purchases	—	—	203	1	356	—	560	—	—	—
Issues	—	76	—	—	—	—	76	—	—	—
Sales	—	—	(62)	—	(63)	—	(125)	—	—	—
Settlements	—	(58)	—	—	—	—	(58)	—	—	—
Other	—	—	—	—	—	—	—	4	—	4
Transfers into Level 3	—	—	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—	—	—
Transferred to held for sale	—	—	—	—	(29)	29	—	(26)	26	—
Balance, end of year	\$ 67	\$ 813	\$ 404	\$ 2	\$ 5,218	\$ 29	\$ 6,533	\$ —	\$ 26	\$ 26
Total gains (losses) for the year included in net investment income	\$ —	\$ (24)	\$ 20	\$ —	\$ 33	\$ —	\$ 29	\$ —	\$ —	\$ —
Change in unrealized gains (losses) for the year included in earnings for assets held at December 31, 2018	\$ —	\$ (24)	\$ 19	\$ —	\$ 26	\$ —	\$ 21	\$ —	\$ —	\$ —

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

8. 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 2.6% - 10.4%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 4.3% - 6.8%	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 3.4%	A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage loans (fair value through profit or loss)	The valuation approach for equity release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/entering into long term care of the loanholders.	Discount rate	Range of 4.1% - 4.6%	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.

9. Insurance and Investment Contract Liabilities

	June 30, 2019		
	Gross liability	Reinsurance assets ⁽¹⁾	Net
Insurance contract liabilities	\$ 171,490	\$ 20,340	\$ 151,150
Investment contract liabilities	1,714	139	1,575
Total	\$ 173,204	\$ 20,479	\$ 152,725

	December 31, 2018		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 166,720	\$ 6,126	\$ 160,594
Investment contract liabilities	1,711	—	1,711
Total	\$ 168,431	\$ 6,126	\$ 162,305

⁽¹⁾ Includes reinsurance assets recognized upon the completion of the reinsurance transaction with Protective Life (note 3).

10. Segregated Funds

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

(a) Investments on account of segregated fund policyholders

	June 30 2019	December 31 2018
Cash and cash equivalents	\$ 13,460	\$ 13,458
Bonds	43,657	42,142
Mortgage loans	2,719	2,746
Stocks and units in unit trusts	96,308	89,853
Mutual funds	54,523	50,956
Investment properties	12,849	12,319
	<u>223,516</u>	<u>211,474</u>
Accrued income	399	380
Other liabilities	(3,763)	(3,191)
Non-controlling mutual funds interest	940	864
Total	<u><u>\$ 221,092</u></u>	<u><u>\$ 209,527</u></u>

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

	For the six months ended June 30	
	2019	2018
Balance, beginning of year	\$ 209,527	\$ 217,357
Additions (deductions):		
Policyholder deposits	11,181	12,506
Net investment income	862	1,081
Net realized capital gains on investments	1,169	2,220
Net unrealized capital gains (losses) on investments	16,458	(1,371)
Unrealized gains (losses) due to changes in foreign exchange rates	(6,092)	2,803
Policyholder withdrawals	(12,119)	(13,820)
Business acquisition	—	950
Change in Segregated Fund investment in General Fund	(13)	48
Change in General Fund investment in Segregated Fund	(11)	(9)
Net transfer from General Fund	13	14
Non-controlling mutual funds interest	76	(662)
Assets held for sale (note 4)	41	—
Total	<u>11,565</u>	<u>3,760</u>
Balance, end of period	<u><u>\$ 221,092</u></u>	<u><u>\$ 221,117</u></u>

10. Segregated Funds (cont'd)

(c) Investments on account of segregated fund policyholders by fair value hierarchy level (note 8)

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ⁽¹⁾	\$ 142,695	\$ 67,417	\$ 13,806	\$ 223,918
Investments on account of segregated fund policyholders held for sale ⁽²⁾	3,260	2	8	3,270
Total investments on account of segregated fund policyholders measured at fair value	\$ 145,955	\$ 67,419	\$ 13,814	\$ 227,188

(1) Excludes other liabilities, net of other assets, of \$2,826.

(2) Excludes other assets, net of other liabilities, of \$8.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ⁽¹⁾	\$ 131,603	\$ 67,199	\$ 13,235	\$ 212,037
Investments on account of segregated fund policyholders held for sale ⁽²⁾	3,297	5	9	3,311
Total investments on account of segregated fund policyholders measured at fair value	\$ 134,900	\$ 67,204	\$ 13,244	\$ 215,348

(1) Excludes other liabilities, net of other assets, of \$2,510.

(2) Excludes other assets, net of other liabilities, of \$8.

During the first six months of 2019 certain foreign stock holdings valued at \$1,377 have been transferred from Level 2 to Level 1 (\$1,842 were transferred from Level 2 to Level 1 at December 31, 2018) 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.

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10. Segregated Funds (cont'd)

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

	June 30, 2019		
	Investments on account of segregated fund policyholders	Investments on account of segregated fund policyholders held for sale	Total
Balance, beginning of year	\$ 13,235	\$ 9	\$ 13,244
Change in accounting policy ⁽¹⁾	136	—	136
Revised balance, beginning of year	13,371	9	13,380
Total gains (losses) included in segregated fund investment income	14	(1)	13
Purchases	517	—	517
Sales	(96)	—	(96)
Balance, end of period	\$ 13,806	\$ 8	\$ 13,814

⁽¹⁾ The segregated funds adopted IFRS 16 which resulted in equal and offsetting right-of-use assets and lease liabilities of \$136 being recorded in investment properties and other liabilities within investments on account of segregated fund policyholders as of January 1, 2019. The adoption of IFRS 16 had no net impact on investments on account of segregated fund policyholders as of January 1, 2019.

	December 31, 2018		
	Investments on account of segregated fund policyholders	Investments on account of segregated fund policyholders held for sale	Total
Balance, beginning of year	\$ 12,572	\$ —	\$ 12,572
Total gains included in segregated fund investment income	404	—	404
Purchases	651	—	651
Sales	(425)	—	(425)
Transfers into Level 3	51	—	51
Transfers out of Level 3	(9)	—	(9)
Transferred to assets held for sale	(9)	9	—
Balance, end of period	\$ 13,235	\$ 9	\$ 13,244

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. There were no transfers into or out of Level 3 during the period ended June 30, 2019.

11. Share Capital

Common Shares

	For the six months ended June 30			
	2019		2018	
	Number	Carrying value	Number	Carrying value
Common shares				
Balance, beginning of year	987,739,408	\$ 7,283	988,722,659	\$ 7,260
Purchased and cancelled under Substantial Issuer Bid	(59,700,974)	(2,000)	—	—
Excess of redemption proceeds over stated capital per Substantial Issuer Bid	—	1,628	—	—
Share issuance - Qualifying Holdco Alternative per Substantial Issuer Bid	595,747,641	2,306	—	—
Cancellation of Shares - Qualifying Holdco Alternative per Substantial Issuer Bid	(595,747,641)	(3,610)	—	—
Purchased and cancelled under Normal Course Issuer Bid	—	—	(857,048)	(29)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid	—	—	—	23
Exercised and issued under stock option plan	808,486	25	1,104,409	37
Balance, end of period	928,846,920	\$ 5,632	988,970,020	\$ 7,291

During the six months ended June 30, 2019, 808,486 common shares were exercised under the Company's stock plan with a carrying value of \$25, including \$4 from contributed surplus transferred upon exercise (1,104,409 with a carrying value of \$37, including \$4 from contributed surplus transferred upon exercise during the six months ended June 30, 2018).

On January 28, 2019, the Company announced a normal course issuer bid commencing February 1, 2019 and terminating January 31, 2020 to purchase for cancellation up to but not more than 20,000,000 of its common shares at market prices.

During the six months ended June 30, 2019, the Company did not purchase any common shares under the current normal course issuer bid (857,048 during the six months ended June 30, 2018 under the previous normal course issuer bid at a cost of \$29). During the six months ended June 30, 2018, the excess paid over the average carrying value was \$23 and was recognized as a reduction to accumulated surplus under the previous normal course issuer bid.

On March 4, 2019, the Company announced a substantial issuer bid (the Offer) pursuant to which the Company offered to purchase for cancellation up to \$2 billion of its common shares from shareholders for cash. The Offer commenced on March 8, 2019 and expired on April 12, 2019. On April 17, 2019, the Company purchased and subsequently cancelled 59,700,974 common shares under the Offer at a price of \$33.50 per share for an aggregate purchase price of \$2 billion. The excess paid over the average carrying value under the Offer was \$1,628 and was recognized as a reduction to accumulated surplus. Transaction costs of \$3 were incurred in connection with the Offer and charged to accumulated surplus.

Related Party Transaction

As part of the substantial issuer bid, Power Financial and IGM participated in the Offer. IGM tendered its Lifeco shares proportionately. Power Financial tendered a portion of its Lifeco common shares on a proportionate basis and all remaining Lifeco common shares on a non-proportionate basis and this did not impact Power Financial's voting control of the Company. Power Financial and IGM effected their tender offers through a Qualifying Holdco Alternative, which the Company also offered to other shareholders, to assist them in achieving certain Canadian

11. *Share Capital (cont'd)*

tax objectives. Under the Qualifying Holdco Alternative, the Corporation issued and subsequently cancelled 595,747,641 shares which resulted in a net decrease in share capital of \$1,304 with a corresponding increase in accumulated surplus.

12. **Earnings per Common Share**

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Earnings				
Net earnings	\$ 493	\$ 864	\$ 1,183	\$ 1,628
Preferred share dividends	(34)	(33)	(67)	(66)
Net earnings - common shareholders	\$ 459	\$ 831	\$ 1,116	\$ 1,562
Number of common shares				
Average number of common shares outstanding	939,293,994	989,071,301	963,428,142	988,842,444
Add: Potential exercise of outstanding stock options	701,145	909,230	546,230	1,004,472
Average number of common shares outstanding - diluted basis	939,995,139	989,980,531	963,974,372	989,846,916
Basic earnings per common share	\$ 0.489	\$ 0.839	\$ 1.159	\$ 1.579
Diluted earnings per common share	\$ 0.489	\$ 0.839	\$ 1.158	\$ 1.578
Dividends per common share	\$ 0.4130	\$ 0.3890	\$ 0.8260	\$ 0.7780

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
- 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 capital transactions undertaken by management.

13. Capital Management (cont'd)

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.

The Life Insurance Capital Adequacy Test (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:

	June 30 2019	December 31 2018
Tier 1 Capital	\$ 11,134	\$ 12,455
Tier 2 Capital	3,655	3,686
Total Available Capital	14,789	16,141
Surplus Allowance & Eligible Deposits	11,723	10,665
Total Capital Resources	\$ 26,512	\$ 26,806
 Base Solvency Buffer (includes 1.05 scalar)	\$ 19,542	\$ 19,165
 Total LICAT Ratio (OSFI Supervisory Target = 100%) ⁽¹⁾	136%	140%

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

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

14. Pension Plans and Other Post-Employment Benefits

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

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Pension plans				
Service costs	\$ 50	\$ 55	\$ 104	\$ 114
Net interest costs	7	7	14	13
Curtailment	(1)	(1)	(1)	(1)
	<u>56</u>	<u>61</u>	<u>117</u>	<u>126</u>
Other post-employment benefits				
Service costs	—	—	1	1
Net interest costs	4	4	7	7
	<u>4</u>	<u>4</u>	<u>8</u>	<u>8</u>
Pension plans and other post-employment benefits expense - Consolidated Statements of Earnings	<u>60</u>	<u>65</u>	<u>125</u>	<u>134</u>
Pension plans - re-measurements				
Actuarial (gain) loss	325	(95)	820	(194)
Return on assets greater than assumed	(141)	(71)	(524)	(14)
Administrative expenses less than assumed	(1)	—	(2)	(1)
Change in the asset ceiling	(11)	23	(29)	23
Pension plans re-measurement (gain) loss	<u>172</u>	<u>(143)</u>	<u>265</u>	<u>(186)</u>
Other post-employment benefits - re-measurements				
Actuarial (gain) loss	<u>12</u>	<u>(7)</u>	<u>33</u>	<u>(10)</u>
Pension plans and other post-employment benefits re-measurements - other comprehensive (income) loss	<u>184</u>	<u>(150)</u>	<u>298</u>	<u>(196)</u>
Total pension plans and other post- employment benefits (income) expense including re-measurements	<u>\$ 244</u>	<u>\$ (85)</u>	<u>\$ 423</u>	<u>\$ (62)</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:

	June 30		March 31		December 31	
	2019	2018	2019	2018	2018	2017
Weighted average discount rate	2.6%	3.3%	2.9%	3.2%	3.4%	3.1%

15. Income Taxes

(a) Income Tax Expense

Income tax expense (recovery) consists of the following:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Current income taxes	\$ 83	\$ 81	\$ 154	\$ 165
Deferred income taxes	(30)	72	29	65
Total income tax expense	\$ 53	\$ 153	\$ 183	\$ 230

(b) Effective Income Tax Rate

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

The overall effective income tax rate for the three months ended June 30, 2019 was 9.6% compared to 14.8% for the three months ended June 30, 2018. The overall effective income tax rate for the six months ended June 30, 2019 was 13.4% which is comparable to 12.2% for the six months ended June 30, 2018.

The effective income tax rate for the three months ended June 30, 2019 is lower than the effective income tax rate for the same period last year primarily due to changes in certain tax estimates as well as the impact of a province of Alberta corporate tax rate decrease.

16. Segmented Information

Consolidated Net Earnings

For the three months ended June 30, 2019

	Canada	United States ⁽²⁾	Europe	Lifeco Corporate	Total
Income					
Total net premiums	\$ 3,225	\$ (12,879)	\$ 5,767	\$ —	\$ (3,887)
Net investment income					
Regular net investment income	717	644	433	3	1,797
Changes in fair value through profit or loss	954	567	724	—	2,245
Total net investment income	1,671	1,211	1,157	3	4,042
Fee and other income	440	1,764	387	—	2,591
	<u>5,336</u>	<u>(9,904)</u>	<u>7,311</u>	<u>3</u>	<u>2,746</u>
Benefits and expenses					
Paid or credited to policyholders	4,118	(10,630)	6,482	—	(30)
Other ⁽¹⁾	843	791	455	8	2,097
Financing charges	32	29	9	2	72
Amortization of finite life intangible assets	22	20	12	—	54
Earnings (loss) before income taxes	<u>321</u>	<u>(114)</u>	<u>353</u>	<u>(7)</u>	<u>553</u>
Income taxes (recovery)	36	(23)	42	(2)	53
Net earnings (loss) before non-controlling interests	<u>285</u>	<u>(91)</u>	<u>311</u>	<u>(5)</u>	<u>500</u>
Non-controlling interests	4	3	—	—	7
Net earnings (loss)	<u>281</u>	<u>(94)</u>	<u>311</u>	<u>(5)</u>	<u>493</u>
Preferred share dividends	29	—	5	—	34
Net earnings (loss) before capital allocation	<u>252</u>	<u>(94)</u>	<u>306</u>	<u>(5)</u>	<u>459</u>
Impact of capital allocation	28	(4)	(24)	—	—
Net earnings (loss) - common shareholders	<u>\$ 280</u>	<u>\$ (98)</u>	<u>\$ 282</u>	<u>\$ (5)</u>	<u>\$ 459</u>

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

⁽²⁾ Includes the loss on the reinsurance transaction with Protective Life of \$247 (\$199 after-tax) (note 3).

GREAT-WEST LIFECO INC.

16. Segmented Information (cont'd)

For the three months ended June 30, 2018

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

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

GREAT-WEST LIFECO INC.

16. Segmented Information (cont'd)

For the six months ended June 30, 2019

	Canada	United States ⁽²⁾	Europe	Lifeco Corporate	Total
Income					
Total net premiums	\$ 6,312	\$ (11,613)	\$ 11,009	\$ —	\$ 5,708
Net investment income					
Regular net investment income	1,373	1,113	759	2	3,247
Changes in fair value through profit or loss	3,236	1,233	2,141	—	6,610
Total net investment income	4,609	2,346	2,900	2	9,857
Fee and other income	862	2,423	785	—	4,070
	<u>11,783</u>	<u>(6,844)</u>	<u>14,694</u>	<u>2</u>	<u>19,635</u>
Benefits and expenses					
Paid or credited to policyholders	9,290	(8,411)	13,003	—	13,882
Other ⁽¹⁾	1,720	1,477	928	13	4,138
Financing charges	64	60	18	2	144
Amortization of finite life intangible assets	43	40	24	—	107
Earnings (loss) before income taxes	<u>666</u>	<u>(10)</u>	<u>721</u>	<u>(13)</u>	<u>1,364</u>
Income taxes (recovery)	106	(3)	83	(3)	183
Net earnings (loss) before non-controlling interests	<u>560</u>	<u>(7)</u>	<u>638</u>	<u>(10)</u>	<u>1,181</u>
Non-controlling interests	(4)	3	(1)	—	(2)
Net earnings (loss)	<u>564</u>	<u>(10)</u>	<u>639</u>	<u>(10)</u>	<u>1,183</u>
Preferred share dividends	57	—	10	—	67
Net earnings (loss) before capital allocation	<u>507</u>	<u>(10)</u>	<u>629</u>	<u>(10)</u>	<u>1,116</u>
Impact of capital allocation	56	(7)	(48)	(1)	—
Net earnings (loss) - common shareholders	<u>\$ 563</u>	<u>\$ (17)</u>	<u>\$ 581</u>	<u>\$ (11)</u>	<u>\$ 1,116</u>

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

⁽²⁾ Includes the loss on the reinsurance transaction with Protective Life of \$247 (\$199 after-tax) (note 3).

GREAT-WEST LIFECO INC.

16. Segmented Information (cont'd)

For the six months ended June 30, 2018

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

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

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