GREAT-WEST LIFECO INC.

Quarterly Report to Shareholders

First Quarter Results

For the period ended March 31, 2018

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Quarterly Report to Shareholders

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

Copies of this report are available at www.greatwestlifeco.com or by contacting the Corporate Secretary’s Office at 204-946-4388.

GREAT-WEST
LIFECO INC.

QUARTERLY REPORT TO THE SHAREHOLDERS

January 1 to March 31, 2018 Three Months Results

The condensed consolidated interim unaudited financial statements including notes at March 31, 2018 were approved by the Board of Directors at a meeting held today in Toronto.

Great-West Lifeco Inc. (Lifeco or the Company) today announced net earnings attributable to common shareholders of $731 million or $0.740 per common share for the first quarter of 2018 compared to $591 million or $0.598 per common share for the same quarter last year. Excluding 2017 restructuring costs, Lifeco's net earnings in the first quarter of 2017 were $619 million. Net earnings in the first quarter of $731 million increased $112 million or 18% compared to adjusted net earnings of $619 million in the prior year driven by strong underlying business performance in all geographic segments.

Highlights – In Quarter

Sales of $34.6 billion up 7%

- Sales for the first quarter of 2018 were $34.6 billion, up 7% from the first quarter of 2017, with strong sales in each of the segments.

Fee and other income of $1.4 billion up 6%

- Fee and other income was $1.4 billion, up 6% from the first quarter of 2017, driven by market performance, particularly in the U.S., and business growth in all the segments.

Capital strength and financial flexibility maintained

- During the first quarter of 2018, the Company's major Canadian operating subsidiaries adopted the Office of the Superintendent of Financial Institutions' (OSFI) new capital adequacy measurement called the Life Insurance Capital Adequacy Test (LICAT). The Great-West Life Assurance Company reported a LICAT ratio of 130% at March 31, 2018 which is above the Company's target range of 110% to 120% for its major Canadian operating subsidiaries.
- Lifeco declared a quarterly common dividend of $0.3890 per common share payable June 29, 2018.
- Adjusted Return on Equity (ROE) for the first quarter of 2018 was 13.8% compared to adjusted ROE of 13.9% a year ago. The adjusted ROE excludes the impact of U.S. tax reform, a net charge on the sale of an equity investment and restructuring costs included in the prior year results.
- Consolidated assets under administration at March 31, 2018 were approximately $1.4 trillion, a 3% increase from December 31, 2017.

Completed offering of $500 million of debentures and redeemed $200 million debentures

- On February 28, 2018, the Company issued $500 million of debentures maturing February 28, 2028. The debentures were issued at par with an annual interest rate of 3.337% payable semi-annually.
- The Company redeemed its 6.14% $200 million debenture notes at their principal amount together with accrued interest upon their maturity on March 21, 2018.

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$500 million subordinated debt redemption announced

- On April 26, 2018, Great-West Lifeco Finance (Delaware) LP II, a subsidiary of the Company, announced its intention to redeem all $500 million principal amount of its 7.127% subordinated debentures due June 26, 2068 on June 26, 2018 at a redemption price equal to 100% of the principal amount of the debentures, plus any accrued interest up to but excluding the redemption date.

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 companies. For more information, please refer to the Company's 2018 first quarter Management's Discussion and Analysis (MD&A).

CANADA

- **Q1 Canada segment net earnings up 24%** – Net earnings attributable to common shareholders for the first quarter of 2018 were $316 million compared to $255 million in the first quarter of 2017, an increase of 24%, reflecting expense reductions driven by the transformation program and strong Group Customer results.

- **Canada advances business transformation** – The Canadian operations made progress on the previously announced targeted annual expense reductions of $200 million pre-tax. As of March 31, 2018, the Company has achieved approximately $137 million pre-tax in annualized expense reductions; approximately $103 million related to the common shareholders' account and $34 million related to the participating accounts.

- **Acquisition of EverWest Real Estate Partners (EverWest) completed** – On February 2, 2018, the Company, through its wholly-owned subsidiary GWL Realty Advisors, acquired the business of EverWest, a U.S. based real estate advisor. While the revenue and net earnings from EverWest are not material, $2.1 billion of real estate assets have been added to the Canada segment assets under administration portfolio. The acquisition provides both scale and organic growth opportunities to the Company.

UNITED STATES

- **Q1 U.S. segment net earnings up 18%** – Net earnings attributable to common shareholders for the first quarter of 2018 were US$59 million, up 18%, compared to adjusted net earnings of US$50 million in the first quarter of 2017, primarily due to continued growth at Empower Retirement and the benefit of a lower U.S. corporate tax rate.

- **Fee and other income up 6%** – Fee and other income for the three months ended March 31, 2018 was US$500 million compared to US$470 million for the same quarter last year, an increase of 6%, due to growth in Empower Retirement participants and assets as well as higher investment management fees driven by higher average assets under management.

- **Putnam average assets up 10%** – Putnam average assets under management for the three months ended March 31, 2018 were US$173.6 billion compared to US$157.4 billion for the same quarter last year, an increase of 10%, primarily due to the cumulative impact of positive markets over the twelve month period. Putnam ending assets under management at March 31, 2018 were US$169.5 billion.

- **Putnam in top ten of Barron's Annual Best Fund Families ranking** – In Barron's Annual Best Fund Families rankings of 2017, Putnam ranked in the top ten for the one-year, five-year and ten-year time periods as follows:
  - Seventh (out of 58) for one-year
  - Seventh (out of 53) for five-years
  - Ninth (out of 49) for ten-years

EUROPE

- **Q1 Europe segment net earnings up 12%** – Net earnings attributable to common shareholders for the first quarter of 2018 were $344 million, up 12%, compared to adjusted net earnings of $306 million in the first quarter of 2017, primarily driven by strong results in the U.K. payout annuity business.

- **Acquisition of the U.K. financial services provider Retirement Advantage completed –** On January 2, 2018, the Company, through its wholly-owned subsidiary The Canada Life Group (U.K.) Limited, completed the acquisition of U.K. financial services provider Retirement Advantage. Retirement Advantage has over 32,000 pension and equity release customers and more than £2.1 billion of assets under management including a block of in-force annuities, with liabilities and supporting assets of approximately £1.5 billion (as of March 31, 2018).

- **Acquisition of strategic holding in financial consultancy Invesco Limited (Ireland) announced –** On April 20, 2018, the Company announced that its wholly-owned subsidiary, Irish Life Group Limited, has reached an agreement to acquire a strategic holding in Invesco Ltd (Ireland), Ireland's largest Irish-owned independent financial consultancy firm. Invesco specializes in employee benefit consultancy and private wealth management and has €4.8 billion in assets under administration. The acquisition is subject to regulatory approval and customary closing conditions, and is expected to be completed in the third quarter of 2018.

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QUARTERLY DIVIDENDS

At its meeting today, the Board of Directors approved a quarterly dividend of $0.3890 per share on the common shares of Lifeco payable June 29, 2018 to shareholders of record at the close of business June 1, 2018.

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

First Preferred Shares	Record Date	Payment Date	Amount, per share
Series F	June 1, 2018	June 29, 2018	$0.36875
Series G	June 1, 2018	June 29, 2018	$0.3250
Series H	June 1, 2018	June 29, 2018	$0.30313
Series I	June 1, 2018	June 29, 2018	$0.28125
Series L	June 1, 2018	June 29, 2018	$0.353125
Series M	June 1, 2018	June 29, 2018	$0.3625
Series N	June 1, 2018	June 29, 2018	$0.1360
Series O	June 1, 2018	June 29, 2018	$0.154015
Series P	June 1, 2018	June 29, 2018	$0.3375
Series Q	June 1, 2018	June 29, 2018	$0.321875
Series R	June 1, 2018	June 29, 2018	$0.3000
Series S	June 1, 2018	June 29, 2018	$0.328125
Series T	June 1, 2018	June 29, 2018	$0.321875

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

P. A. Mahon
President and Chief Executive Officer

May 3, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED MARCH 31, 2018
DATED: May 3, 2018

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

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated 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 financial statements for the period ended March 31, 2018. Also refer to the 2017 Annual MD&A and consolidated financial statements in the Company's 2017 Annual Report.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

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

CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES

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

CONSOLIDATED OPERATING RESULTS

Selected consolidated financial information (in Canadian $ millions)			
	As at or for the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Premiums and deposits:			
Amounts reported in the financial statements			
Net premium income (Life insurance, guaranteed annuities and insured health products)	**$ 8,174**	$ 8,494	$ 9,354
Policyholder deposits (segregated funds):			
Individual products	**3,988**	5,357	3,897
Group products	**2,422**	2,009	2,185
Premiums and deposits reported in the financial statements	**14,584**	15,860	15,436
Self-funded premium equivalents (Administrative services only contracts)(1)	**748**	720	716
Proprietary mutual funds and institutional deposits(1)	**17,794**	16,065	17,386
Total premiums and deposits(1)(6)	**33,126**	32,645	33,538
Fee and other income(6)	**1,433**	1,439	1,348
Net policyholder benefits, dividends and experience refunds	**7,829**	7,618	8,543
Earnings			
Net earnings - common shareholders	**$ 731**	$ 392	$ 591
Adjustments(7)	**—**	342	28
Adjusted net earnings - common shareholders(7)	**731**	734	619
Per common share			
Basic earnings	**0.740**	0.397	0.598
Adjusted basic earnings(7)	**0.740**	0.742	0.627
Dividends paid	**0.389**	0.367	0.367
Book value	**21.01**	20.11	19.99
Return on common shareholders' equity(2)			
Net earnings	**11.4%**	10.9%	13.6%
Adjusted net earnings(7)	**13.8%**	13.4%	13.9%
Total assets per financial statements(5)	**$ 432,651**	$ 419,838	$ 405,406
Proprietary mutual funds and institutional net assets(3)	**285,843**	278,954	270,121
Total assets under management(3)	**718,494**	698,792	675,527
Other assets under administration(4)	**673,597**	651,121	620,064
Total assets under administration	**$ 1,392,091**	$ 1,349,913	$ 1,295,591
Total equity	**$ 26,435**	$ 25,536	$ 25,372

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

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

(3) 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.

(4) 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.

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

(6) Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers,* as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2018.

(7) Adjusted net earnings attributable to common shareholders and adjusted net earnings per common share are non-IFRS measures of earnings performance. For the first quarter of 2018, adjustments were nil (the first quarter of 2017 included restructuring costs of $17 million in the Europe segment and $11 million in the U.S. segment). The following adjustments were made in the fourth quarter of 2017:

	Segment				
Fourth Quarter 2017 Adjustments:	**Canada**	**United States**	**Europe**	**Total**	**EPS Impact**
Restructuring costs	$ —	$ —	$ 4	$ 4	$ 0.004
Net charge on sale of equity investment	—	122	—	122	0.124
U.S. tax reform impact	19	251	(54)	216	0.218
Total Adjustments	**$ 19**	**$ 373**	**$ (50)**	**$ 342**	**$ 0.345**

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 March 31, 2018 were $731 million compared to adjusted net earnings of $619 million a year ago and $734 million in the previous quarter. On a per share basis, this represents $0.740 per common share ($0.739 diluted) compared to $0.627 per common share ($0.625 diluted) a year ago and $0.742 per common share ($0.741 diluted) in the previous quarter. Adjusted net earnings in the first quarter of 2017 exclude $28 million related to restructuring costs. Adjusted net earnings in the fourth quarter of 2017 exclude restructuring costs of $4 million, a net charge of $122 million related to the sale of an equity investment and a net charge of $216 million related to U.S. tax reform.

Net earnings - common shareholders	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Canada			
Individual Customer	**$ 138**	$ 162	$ 146
Group Customer	**142**	193	104
Canada Corporate[1]	**36**	(17)	5
	316	338	255
United States			
Financial Services	**91**	80	85
Asset Management	**(16)**	(5)	(16)
U.S. Corporate[1]	**—**	(373)	(13)
	75	(298)	56
Europe			
Insurance & Annuities	**244**	250	225
Reinsurance	**104**	67	81
Europe Corporate[1]	**(4)**	41	(17)
	344	358	289
Lifeco Corporate	**(4)**	(6)	(9)
Net earnings - common shareholders	**$ 731**	$ 392	$ 591
Adjustments[1]			
Restructuring costs	**—**	4	28
Net charge on sale of equity investment	**—**	122	—
U.S. tax reform impact	**—**	216	—
Adjusted net earnings - common shareholders	**$ 731**	$ 734	$ 619

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

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

MARKET IMPACTS

Interest Rate Environment
Interest rates in countries where the Company operates mostly increased during the quarter. The net change in interest rates did not impact the range of interest rate scenarios tested through the valuation process. The net change in interest rates had no material impact on net earnings.

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

For a further description of the Company's sensitivity to interest rate fluctuations, refer to Financial Instruments Risk Management, note 5 to the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2018.

Equity Markets
In the regions where the Company operates, average equity market levels in the first quarter of 2018 were up compared to the same period in 2017; however, markets ended the quarter at lower market levels compared to December 31, 2017. Relative to the Company's expectation, the change in average market levels and market volatility had a positive $2 million impact on net earnings during the first quarter of 2018 ($5 million positive impact in the first quarter of 2017), related to asset-based fee income and the costs related to guarantees of death, maturity or income benefits within certain wealth management products offered by the Company. In addition, net earnings were positively impacted by approximately $6 million in the first quarter of 2018 ($9 million positive impact in the first quarter of 2017), related to seed money investments held in the U.S. Asset Management and Canada Corporate business units.

Comparing the first quarter of 2018 to the first quarter of 2017, average equity market levels were up by 1% in Canada (as measured by S&P TSX), 18% in the U.S. (measured by S&P 500), 1% in the U.K. (measured by FTSE 100) and 4% in broader Europe (measured by Euro Stoxx 50). The major equity indices finished the first quarter of 2018 down 5% in Canada, 1% in the U.S., 8% in the U.K. and 4% in broader Europe compared to December 31, 2017.

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

The average currency translation rate for the first quarter of 2018 decreased for the U.S. dollar, and increased for the British pound and the euro compared to the first quarter of 2017. The overall impact of currency movement on the Company’s net earnings for the three month period ended March 31, 2018 was an increase of $17 million compared to translation rates a year ago.

From December 31, 2017 to March 31, 2018, the market rates at the end of the reporting period used to translate U.S. dollar, British pound and euro assets and liabilities to the Canadian dollar increased. The movements in end-of-period market rates resulted in unrealized foreign exchange gains from the translation of foreign operations, including related hedging activities, of $686 million in-quarter 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 first quarter of 2018, the Company updated a number of actuarial assumptions resulting in a positive net earnings impact of $121 million, compared to $38 million for the same quarter last year and $35 million for the previous quarter. In Europe, net earnings were positively impacted by $113 million primarily due to the impact of updated annuitant mortality assumptions. In Canada, net earnings were positively impacted by $8 million primarily due to the impact of updated experience refund provisions and modeling refinements.

PREMIUMS AND DEPOSITS AND SALES

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

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

Premiums and deposits

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Canada			
Individual Customer	**$ 2,616**	$ 2,809	$ 2,932
Group Customer[(1)]	**4,437**	4,026	4,016
	7,053	6,835	6,948
United States			
Financial Services	**3,110**	3,134	3,598
Asset Management	**13,235**	11,016	13,960
	16,345	14,150	17,558
Europe			
Insurance & Annuities	**6,412**	8,665	5,155
Reinsurance	**3,316**	2,995	3,877
	9,728	11,660	9,032
Total premiums and deposits[(1)]	**$ 33,126**	$ 32,645	$ 33,538

Sales

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Canada	**$ 3,822**	$ 3,772	$ 3,663
United States	**25,076**	19,162	24,352
Europe - Insurance & Annuities	**5,739**	7,325	4,416
Total sales	**$ 34,637**	$ 30,259	$ 32,431

(1) Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers,* as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2018.

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

NET INVESTMENT INCOME

Net investment income	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Investment income earned (net of investment properties expenses)	**$ 1,543**	$ 1,537	$ 1,474
Allowances for credit losses on loans and receivables	**—**	(6)	(4)
Net realized gains	**61**	66	30
Regular investment income	**1,604**	1,597	1,500
Investment expenses	**(31)**	(33)	(31)
Regular net investment income	**1,573**	1,564	1,469
Changes in fair value through profit or loss	**(1,487)**	1,415	735
Net investment income	**$ 86**	$ 2,979	$ 2,204

Net investment income in the first quarter of 2018, which includes changes in fair value through profit or loss, decreased by $2,118 million compared to the same quarter last year. The changes in fair value in the first quarter of 2018 were a decrease of $1,487 million compared to an increase of $735 million for the first quarter of 2017, primarily due to an increase in bond yields in the first quarter of 2018 compared to a decline in bond yields in the same quarter last year.

Regular net investment income in the first quarter of 2018 of $1,573 million, which excludes changes in fair value through profit or loss, increased by $104 million compared to the same quarter last year. The increase was primarily due to higher interest on bond investments as well as higher net realized gains driven primarily by early mortgage redemptions. Net realized gains include losses on available-for-sale securities of $1 million for the first quarter of 2018 compared to gains of $8 million for the same quarter last year.

Net investment income in the first quarter of 2018 decreased by $2,893 million compared to the previous quarter, primarily due to a decrease in fair values of $1,487 million in the first quarter of 2018 compared to an increase of $1,415 million in the previous quarter. The net decrease in fair values during the first quarter was primarily due to an increase in bond yields, while the net increase in fair values in the previous quarter was primarily due to a decline in long duration Canadian bond yields as well as a decline in U.K. bond yields.

Credit Markets

In the first quarter of 2018, the Company experienced net recoveries on impaired investments, including dispositions, which positively impacted common shareholders' net earnings by $7 million ($1 million net charge in the first quarter of 2017). Changes in credit ratings in the Company's fixed income portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $4 million ($3 million net positive impact in the first quarter of 2017).

FEE AND OTHER INCOME

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

Effective January 1, 2018 the Company adopted IFRS 15, *Revenue from Contracts with Customers*, which resulted in reclassifications to certain revenues and expenses. Comparative figures for fee and other income have been reclassified to reflect the revised presentation as described in the "International Financial Reporting Standard" section and in note 2 to the Company's March 31, 2018 condensed consolidated interim unaudited financial statements.

Fee and other income

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Canada			
Segregated funds, mutual funds and other[(1)]	**$ 390**	$ 387	$ 356
ASO contracts[(1)]	**48**	49	49
	438	436	405
United States			
Segregated funds, mutual funds and other[(1)]	**631**	635	619
Europe			
Segregated funds, mutual funds and other	**364**	368	324
Total fee and other income[(1)]	**$ 1,433**	$ 1,439	$ 1,348

(1) Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers,* as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2018.

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

NET POLICYHOLDER BENEFITS, DIVIDENDS AND EXPERIENCE REFUNDS

Net policyholder benefits, dividends and experience refunds

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Canada	**$ 2,378**	$ 2,319	$ 2,516
United States	**1,117**	1,156	1,082
Europe	**4,334**	4,143	4,945
Total	**$ 7,829**	$ 7,618	$ 8,543

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 March 31, 2018, net policyholder benefits, dividends and experience refunds were $7.8 billion, a decrease of $0.7 billion from the same period in 2017. The decrease in benefit payments was primarily due to restructured reinsurance agreements, partially offset by new reinsurance agreements and higher volumes relating to existing business.

Compared to the previous quarter, net policyholder benefits, dividends and experience refunds increased by $0.2 billion, primarily due to new and restructured reinsurance agreements and higher volumes relating to existing business.

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 first quarter of 2018, the Company had an effective income tax rate of 9%, down from 13% in the first quarter of 2017. The effective income tax rate for the first quarter of 2018 was favourably impacted by changes in certain tax estimates, as well as income taxed outside of Canada, including the impact of the lower U.S. corporate federal income tax rate.

The first quarter 2018 effective income tax rate of 9% was lower than the fourth quarter 2017 rate of 30%. On December 22, 2017, the *Tax Reconciliation Act*, was substantively enacted, following the signing by the President of the U.S. The legislation, which was generally effective for tax years beginning on January 1, 2018, results in significant U.S. tax reform and revises the Internal Revenue Code by, among other things, lowering the corporate federal income tax rate from 35% to 21% and modifying how the U.S. taxes multinational entities. As a result of these changes, the Company revalued certain deferred tax balances and insurance contract liabilities and updated certain expense provisions in 2017. The fourth quarter of 2017 impact of these items was a net charge of $216 million to net earnings, which increased the Company's fourth quarter of 2017 effective income tax rate by 21 points. Excluding the impact of this U.S. tax reform, the Company's effective income tax rate for the fourth quarter of 2017 is comparable to the effective income tax rate for the first quarter of 2018.

CONSOLIDATED FINANCIAL POSITION

ASSETS

Assets under administration

	March 31, 2018			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	**$ 73,795**	**$ 44,923**	**$ 55,587**	**$ 174,305**
Goodwill and intangible assets	**5,483**	**2,019**	**2,800**	**10,302**
Other assets	**3,062**	**4,145**	**19,806**	**27,013**
Segregated funds net assets	**79,726**	**33,983**	**107,322**	**221,031**
Total assets	**162,066**	**85,070**	**185,515**	**432,651**
Proprietary mutual funds and institutional net assets	**6,837**	**235,926**	**43,080**	**285,843**
Total assets under management	**168,903**	**320,996**	**228,595**	**718,494**
Other assets under administration	**12,978**	**617,388**	**43,231**	**673,597**
Total assets under administration	**$ 181,881**	**$ 938,384**	**$ 271,826**	**$ 1,392,091**

	December 31, 2017			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 73,110	$ 44,263	$ 50,562	$ 167,935
Goodwill and intangible assets	5,447	1,975	2,489	9,911
Other assets	2,804	3,787	18,044	24,635
Segregated funds net assets	80,399	34,038	102,920	217,357
Total assets	161,760	84,063	174,015	419,838
Proprietary mutual funds and institutional net assets	6,810	232,623	39,521	278,954
Total assets under management	168,570	316,686	213,536	698,792
Other assets under administration	11,580	597,596	41,945	651,121
Total assets under administration	$ 180,150	$ 914,282	$ 255,481	$ 1,349,913

Total assets under administration at March 31, 2018 increased by $42.2 billion to $1.4 trillion compared to December 31, 2017, primarily due to the impact of currency movement and new business growth, partially offset by the impact of market movements. The increase of $1.4 billion in the Canadian segment's other assets under administration was primarily due to the acquisition of EverWest Real Estate Partners (EverWest), a U.S. based real estate advisor, partially offset by the transition of real estate assets from GWL Realty Advisors to British Columbia Investment Management Corporation (bcIMC) in the first quarter of 2018.

INVESTED ASSETS

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

Bond portfolio – It is the Company's policy to acquire primarily investment grade bonds subject to prudent and well-defined investment policies. Modest investments in below investment grade rated securities may occur while not changing the overall discipline and conservative approach to the investment strategy. The total bond portfolio, including short-term investments, was $124.5 billion or 71% of invested assets at March 31, 2018 and $120.2 billion or 72% at December 31, 2017. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 80% rated A or higher.

Bond portfolio quality

	March 31, 2018		December 31, 2017	
AAA	**$ 24,408**	**20 %**	$ 24,889	21%
AA	**34,161**	**27**	32,405	27
A	**41,271**	**33**	40,328	33
BBB	**23,572**	**19**	21,449	18
BB or lower	**1,093**	**1**	1,133	1
Total	**$ 124,505**	**100 %**	$ 120,204	100%

Mortgage portfolio – It is the Company's practice to acquire only high quality commercial mortgages meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk-rating system, which it uses in its underwriting and credit monitoring processes for commercial loans. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well diversified across each geographic region, including specific diversification requirements for non-insured mortgages. With the acquisition of Retirement Advantage in the Europe segment, the Company acquired a portfolio of equity release mortgages, which are loans provided to seniors who want to continue living in their homes while accessing some of the underlying equity value in their homes. Loans are typically repaid when the borrower dies or moves into long-term care.

Mortgage portfolio

	March 31, 2018				December 31, 2017	
Mortgage loans by type	**Insured**	**Non-insured**	**Total**		Total	
Single family residential	**$ 649**	**$ 1,475**	**$ 2,124**	**9%**	$ 2,139	10%
Multi-family residential	**3,761**	**3,293**	**7,054**	**30**	6,766	30
Equity release	**—**	**832**	**832**	**3**	—	—
Commercial	**315**	**13,530**	**13,845**	**58**	13,280	60
Total	**$ 4,725**	**$ 19,130**	**$ 23,855**	**100%**	$ 22,185	100%

The total mortgage portfolio was $23.9 billion or 14% of invested assets at March 31, 2018, up from $22.2 billion or 13% of invested assets at December 31, 2017. The increase is primarily due to the equity release mortgages acquired in the Retirement Advantage acquisition, net commercial mortgage originations, and the effect of currency movement as the British pound and U.S. dollar strengthened against the Canadian dollar. The equity release mortgages have a weighted average loan-to-value of 22%. Total insured loans were $4.7 billion or 20% of the mortgage portfolio.

Single family residential mortgages

Region	March 31, 2018		December 31, 2017	
Ontario	**$ 1,045**	**49%**	$ 1,054	49%
Quebec	**455**	**22**	458	22
Alberta	**132**	**6**	135	6
British Columbia	**122**	**6**	120	6
Newfoundland	**111**	**5**	112	5
Saskatchewan	**92**	**4**	94	5
Nova Scotia	**63**	**3**	63	3
New Brunswick	**51**	**3**	50	2
Manitoba	**48**	**2**	49	2
Other	**5**	**—**	4	—
Total	**$ 2,124**	**100%**	$ 2,139	100%

During the three months ended March 31, 2018, single family mortgage originations, including renewals, were $169 million, of which 22% 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 March 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 March 31, 2018, the total actuarial provision for future credit losses in insurance contract liabilities was $3,020 million compared to $2,891 million at December 31, 2017, an increase of $129 million, primarily due to the impact of currency movement and the acquisition of Retirement Advantage.

The aggregate of impairment provisions of $29 million ($41 million at December 31, 2017) and actuarial provisions for future credit losses in insurance contract liabilities of $3,020 million ($2,891 million at December 31, 2017) represents 2.0% of bond and mortgage assets, including funds held by ceding insurers, at March 31, 2018 (2.0% at December 31, 2017).

United Kingdom property related exposures

At March 31, 2018, the Company's holdings of property related investments in the U.K. were $8.0 billion ($6.8 billion at December 31, 2017), or 4.6% of invested assets. The $1.2 billion increase from December 31, 2017 was primarily due to the addition of equity release mortgages through the acquisition of Retirement Advantage and the impact of currency movement, as the British pound strengthened against the Canadian dollar. These holdings remain well diversified across property type.

DERIVATIVE FINANCIAL INSTRUMENTS

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

At March 31, 2018, total financial collateral, including initial margin and overcollateralization, received on derivative assets was $35 million ($77 million at December 31, 2017) and pledged on derivative liabilities was $661 million ($437 million at December 31, 2017). Collateral pledged on derivative liabilities increased in the first quarter of 2018 as a result of an increase in derivative liabilities, primarily driven by the impact of the strengthening U.S. dollar against the Canadian dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

During the three month period ended March 31, 2018, the outstanding notional amount of derivative contracts increased by $2.1 billion to $18.7 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, decreased to $351 million at March 31, 2018 from $384 million at December 31, 2017. The decrease is primarily due to the strengthening of the U.S. dollar against the Canadian dollar on cross-currency swaps that pay U.S. dollars and receive Canadian dollars.

LIABILITIES

Total liabilities

	March 31 2018	December 31 2017
Insurance and investment contract liabilities	**$ 167,425**	$ 161,365
Other general fund liabilities	**17,760**	15,580
Investment and insurance contracts on account of segregated fund policyholders	**221,031**	217,357
Total	**$ 406,216**	$ 394,302

Total liabilities increased by $11.9 billion to $406.2 billion at March 31, 2018 from December 31, 2017. Insurance and investment contract liabilities increased by $6.1 billion, primarily due to the strengthening of the British pound, euro and U.S. dollar against the Canadian dollar and the acquisition of Retirement Advantage, partially offset by the impact of fair value adjustments. Insurance and investment contracts on account of segregated fund policyholders increased by $3.7 billion, primarily due to the impact of currency movement of $6.6 billion, partially offset by net impact of market value losses and investment income of $2.9 billion and net withdrawals of $0.4 billion.

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

Certain guaranteed minimum withdrawal benefit (GMWB) products offered by the Company offer levels of death and maturity guarantees. At March 31, 2018, the amount of GMWB products in-force in Canada, the U.S., Ireland and Germany were $4,213 million ($4,225 million at December 31, 2017). The Company has a hedging program in place to manage certain risks associated with options embedded in its GMWB products.

Segregated fund and variable annuity guarantee exposure

		March 31, 2018			
		Investment deficiency by benefit type			
	Market Value	**Income**	**Maturity**	**Death**	**Total**[1]
Canada	$ 32,304	$ —	$ 19	$ 72	$ 72
United States	13,491	23	—	34	57
Europe					
Insurance & Annuities	9,841	8	—	590	590
Reinsurance[2]	1,103	265	—	10	275
Total Europe	10,944	273	—	600	865
Total	**$ 56,739**	**$ 296**	**$ 19**	**$ 706**	**$ 994**

(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 March 31, 2018.
(2) Reinsurance exposure is to markets in Canada and the U.S.

The investment deficiency measures the point-in-time exposure to a trigger event (i.e., income election, maturity or death) assuming it occurred on March 31, 2018. The actual cost to the Company will depend on the trigger event having occurred and the market values at that time. The actual claims before tax associated with these guarantees were $6 million in-quarter ($6 million for the first quarter of 2017) with the majority arising in the Reinsurance business unit in the Europe segment.

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

DEBENTURES AND OTHER DEBT INSTRUMENTS
At March 31, 2018, debentures and other debt instruments increased by $308 million to $5,925 million compared to December 31, 2017.

On February 28, 2018, the Company issued $500 million aggregate principal amount of debentures maturing February 28, 2028. The debentures were issued at par and interest at the rate of 3.337% per annum will be payable semi-annually in arrears on February 28 and August 28 in each year. The debentures are redeemable at any time prior to November 28, 2027 in whole or in part at the greater of the Canada Yield Price and par, and on or after November 28, 2027 in whole or in part at par, together in each case with accrued and unpaid interest.

On March 21, 2018, the Company redeemed its 6.14% $200 million debenture notes at their principal amount together with accrued interest.

Subsequent to the first quarter of 2018, Great-West Lifeco Finance (Delaware) LP II, a subsidiary of the Company, announced its intention to redeem all $500 million principal amount of its 7.127% subordinated debentures due June 26, 2068 on June 26, 2018 at a redemption price equal to 100% of the principal amount of the debentures, plus any accrued interest up to but excluding the redemption date. This redemption will have no impact on the Life Insurance Capital Adequacy Test (LICAT) ratio as the debenture is not held within the Company's Office of Superintendent of Financial Institutions (OSFI) regulated entities.

SHARE CAPITAL AND SURPLUS

Share capital outstanding at March 31, 2018 was $9,982 million, which comprises $7,268 million of common shares, $2,464 million of non-cumulative First Preferred Shares, $213 million of 5-year rate reset First Preferred Shares and $37 million of floating rate First Preferred Shares.

The Company commenced a normal course issuer bid (NCIB) on January 15, 2018 for one year to purchase and cancel up to 20,000,000 of its common shares at market prices in order to mitigate the dilutive effect of stock options granted under the Company's Stock Option Plan and for other capital management purposes. During the three months ended March 31, 2018, the Company repurchased and subsequently cancelled 431,000 common shares (2017 - 12,698) under its NCIB at an average cost per share of $34.22 (2017 - $37.10).

LIQUIDITY AND CAPITAL MANAGEMENT AND ADEQUACY

LIQUIDITY

The Company’s liquidity requirements are largely self-funded, with short-term obligations being met by internal funds and maintaining adequate levels of liquid investments. The Company holds cash, cash equivalents and short-term bonds at the Lifeco holding company level and with the Lifeco consolidated subsidiary companies. At March 31, 2018, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of $7.1 billion ($7.3 billion at December 31, 2017) and other liquid assets and marketable securities of $95.1 billion ($93.8 billion at December 31, 2017). Included in the cash, cash equivalents and short-term bonds at March 31, 2018 was $0.8 billion ($0.5 billion at December 31, 2017) held at the Lifeco holding company level. In addition, the Company maintains sufficient committed lines of credit with Canadian chartered banks for unanticipated liquidity needs, if required.

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

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

CASH FLOWS

Cash flows

	For the three months ended March 31	
	2018	2017
Cash flows relating to the following activities:		
Operations	**$ 1,159**	$ 1,477
Financing	**(236)**	(568)
Investment	**(1,003)**	(1,118)
	(80)	(209)
Effects of changes in exchange rates on cash and cash equivalents	**124**	(8)
Increase (decrease) in cash and cash equivalents in the period	**44**	(217)
Cash and cash equivalents, beginning of period	**3,551**	3,259
Cash and cash equivalents, end of period	**$ 3,595**	$ 3,042

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 first quarter of 2018, cash and cash equivalents increased by $44 million from December 31, 2017. Cash flows provided by operations during the first quarter of 2018 were $1,159 million, a decrease of $318 million compared to the first quarter of 2017. Cash flows used in financing were $236 million, primarily used for the payment of dividends to common and preferred shareholders of $418 million and a decrease in line of credit of subsidiary of $94 million, partially offset by a net issuance in debentures of $280 million. In the first quarter of 2018, the Company increased the quarterly dividend to common shareholders from $0.367 per common share $0.389 per common share. For the three months ended March 31, 2018, cash flows were used by the Company to acquire an additional $1,003 million of investment assets and net business acquisitions.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

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

CAPITAL MANAGEMENT AND ADEQUACY

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

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

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

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

Great-West Life's consolidated LICAT ratio at March 31, 2018 was 130%. The LICAT ratio does not take into account any impact from $0.8 billion of liquidity at the Lifeco holding company level at March 31, 2018 ($0.5 billion at December 31, 2017).

The following provides a summary of the LICAT information and ratios for Great-West Life for its first LICAT reporting period ending March 31, 2018:

LICAT Ratio	**March 31 2018**
Tier 1 Capital	$ 12,536
Tier 2 Capital	3,212
Total Available Capital	15,748
Surplus Allowance & Eligible Deposits	10,342
Total Capital Resources	**$ 26,090**
Base Solvency Buffer (includes OSFI scalar 1.05)	**$ 20,034**
LICAT Ratio:	
Total Ratio (OSFI Supervisory Target = 100%)(1)	**130%**

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

OSFI Regulatory Capital Initiatives

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

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

CAPITAL ALLOCATION METHODOLOGY

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

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

Return on Equity - Net earnings basis[1]

	Mar. 31 2018	Dec. 31 2017	Mar. 31 2017
Canada	**17.8 %**	17.5 %	20.6 %
U.S. Financial Services	**16.9 %**	17.4 %	10.0 %
U.S. Asset Management (Putnam)	**(27.2)%**	(24.2)%	(2.5)%
Europe	**15.5 %**	15.4 %	16.9 %
Lifeco Corporate	**(5.7)%**	(4.3)%	(3.7)%
Total Lifeco Net Earnings Basis	**11.4 %**	10.9 %	13.6 %

Return on Equity - Adjusted net earnings basis[1]

	Mar. 31 2018	Dec. 31 2017	Mar. 31 2017
Canada[2]	**20.0 %**	19.9 %	20.6 %
U.S. Financial Services[3]	**10.9 %**	11.4 %	10.6 %
U.S. Asset Management (Putnam)[4]	**(1.0)%**	(0.9)%	(1.7)%
Europe[5]	**14.9 %**	15.0 %	17.4 %
Lifeco Corporate	**(5.7)%**	(4.3)%	(3.7)%
Total Lifeco Adjusted Net Earnings Basis[2][3][4][5]	**13.8 %**	13.4 %	13.9 %

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

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

(3) U.S. Financial Services adjusted net earnings excludes the positive impact of U.S. tax reform of $197 million in the fourth quarter of 2017. The first quarter of 2017 excludes restructuring costs of $11 million ($3 million in the second quarter of 2017, $2 million in the fourth quarter of 2016, and $2 million in the third quarter of 2016).

(4) U.S. Asset Management (Putnam) adjusted net earnings excludes the impact of a net charge on the sale of an equity investment of $122 million and the impact of U.S. tax reform of $448 million in the fourth quarter of 2017. The fourth quarter of 2016 excludes restructuring costs of $20 million.

(5) Europe adjusted net earnings for the fourth quarter of 2017 excludes the positive impact of U.S. tax reform of $54 million and restructuring costs of $4 million related to the Insurance and Annuities business unit ($1 million in the third quarter of 2017, $1 million in the second quarter of 2017, $17 million in the first quarter of 2017, $13 million in the third quarter of 2016 and $1 million in the second quarter of 2016).

The Company reported ROE based on net earnings of 11.4% at March 31, 2018, compared to 10.9% at December 31, 2017. The Company reported ROE based on adjusted net earnings of 13.8% at March 31, 2018, up from 13.4% at December 31, 2017. Adjusted net earnings excludes the impact of U.S. tax reform, the net charge on the sale of an equity investment and restructuring costs in prior periods. Lifeco's net earnings for the third quarter of 2017 included a loss estimate of $175 million after-tax relating to estimated claims resulting from the impact of recent Atlantic hurricane activity which reduced ROE by 0.9%.

RATINGS

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

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

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

SEGMENTED OPERATING RESULTS

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

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

CANADA

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

Selected consolidated financial information - Canada

	For the three months ended		
	March 31 2018	Dec. 31 2017[1]	March 31 2017
Premiums and deposits[2]	**$ 7,053**	$ 6,835	$ 6,948
Sales	**3,822**	3,772	3,663
Fee and other income[2]	**438**	436	405
Net earnings	**316**	338	255
Adjusted net earnings[1]	**316**	357	255
Total assets[3]	**$ 162,066**	$ 161,760	$ 156,312
Proprietary mutual funds and institutional net assets	**6,837**	6,810	6,163
Total assets under management	**168,903**	168,570	162,475
Other assets under administration	**12,978**	11,580	16,011
Total assets under administration	**$ 181,881**	$ 180,150	$ 178,486

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

(2) Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers,* as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2018.

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

2018 DEVELOPMENTS

- As of March 31, 2018, $137 million of pre-tax annualized expense reductions have been achieved relating to the Canadian business transformation compared to $123 million as of December 31, 2017. The $137 million of pre-tax annualized expense reductions are approximately $103 million related to the common shareholders' account and $34 million related to the participating accounts. The Company remains on track to achieve targeted annual expense reductions of $200 million pre-tax by the first quarter of 2019, approximately $160 million relating to the common shareholders' account and $40 million relating to the participating accounts.
- On February 2, 2018, the Company, through its wholly-owned subsidiary GWL Realty Advisors, acquired the business of EverWest Real Estate Partners, a U.S. based real estate advisor. While the revenue and net earnings from EverWest are not material, $2.1 billion of real estate assets have been added to the Canada segment assets under administration portfolio. The acquisition provides both scale and organic growth opportunities to the Company.
- The Company continues to build on its growth strategy in the managing general agency (MGA) market with the purchase of Abex Central by the Financial Horizons Group. The acquisition closed in the first quarter of 2018, and is another step in the strategic growth of Financial Horizons Group as the leading MGA and financial services company in Canada.

BUSINESS UNITS - CANADA

INDIVIDUAL CUSTOMER

OPERATING RESULTS

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Premiums and deposits	**$ 2,616**	$ 2,809	$ 2,932
Sales	**2,525**	2,537	2,860
Fee and other income	**250**	255	225
Net earnings	**138**	162	146

Premiums and deposits
Premiums and deposits for the first quarter of 2018 decreased by $0.3 billion to $2.6 billion compared to the same quarter last year, primarily due to a decrease in individual wealth segregated fund deposits of $0.2 billion and a decrease in participating life insurance premiums of $0.1 billion.

Premiums and deposits for the first quarter of 2018 decreased by $0.2 billion compared to the previous quarter, primarily due to a decrease in participating life insurance premiums of $0.3 billion, partially offset by an increase in individual wealth segregated fund and proprietary mutual fund deposits of $0.1 billion.

Sales
Sales for the first quarter of 2018 decreased by $0.3 billion to $2.5 billion compared to the same quarter last year, due to a decrease in individual insurance sales of $0.2 billion and a decrease in individual wealth sales of $0.1 billion. The decrease in individual insurance sales was primarily due to higher insurance sales in the first quarter of 2017 driven by the transition rules associated with the new tax exempt legislation effective January 2017. The decrease in individual wealth sales was primarily due to a decrease in segregated fund sales, partially offset by higher third party sales.

Sales for the first quarter of 2018 were comparable to the previous quarter for both individual insurance and individual wealth products.

For the individual wealth investment fund business, net cash outflows for the first quarter of 2018 were $137 million compared to net cash inflows of $125 million for the same quarter last year and net cash outflows of $83 million for the previous quarter.

Fee and other income
Fee and other income for the first quarter of 2018 increased by $25 million to $250 million compared to the same quarter last year, primarily due to growth in other income related to the Financial Horizon Group acquisition and growth in fee income driven by higher average assets under administration.

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

Net earnings
Net earnings for the first quarter of 2018 decreased by $8 million to $138 million compared to the same quarter last year. The decrease was primarily due to less favourable mortality experience and a lower impact from new business driven by lower insurance sales, partially offset by more favourable policyholder behaviour experience.

Net earnings for the first quarter of 2018 decreased by $24 million compared to the previous quarter. The decrease was primarily due to lower net fee income, a lower impact from new business driven by lower insurance sales and lower contributions from insurance contract liability basis changes, partially offset by higher contributions from investment experience and favourable policyholder behaviour experience.

For the first quarter of 2018, net earnings attributable to the participating account were nil compared to $29 million for the same quarter last year, primarily due to a lower impact from new business driven by lower participating insurance sales.

Compared to the previous quarter, net earnings attributable to the participating account decreased by $25 million, primarily due to a lower impact from new business driven by lower insurance sales and lower contributions from insurance contract liability basis changes.

GROUP CUSTOMER

OPERATING RESULTS

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Premiums and deposits[(1)]	**$ 4,437**	$ 4,026	$ 4,016
Sales	**1,297**	1,235	803
Fee and other income[(1)]	**170**	169	160
Net earnings	**142**	193	104

(1) Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers,* as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2018.

Premiums and deposits
Premiums and deposits for the first quarter of 2018 increased by $0.4 billion to $4.4 billion compared to the same quarter last year, primarily due to an increase in group wealth segregated fund deposits.

Premiums and deposits for the first quarter of 2018 increased by $0.4 billion compared to the previous quarter, primarily due to an increase in group wealth segregated fund deposits.

Sales
Sales for the first quarter of 2018 increased by $0.5 billion to $1.3 billion compared to the same period last year, due to an increase in group wealth sales of $0.3 billion and an increase in group insurance sales of $0.2 billion. The increase in group wealth sales was due to both risk based sales and segregated fund sales, while the increase in group insurance sales was primarily due to an increase in large case sales.

Sales for the first quarter of 2018 increased by $0.1 billion compared to the previous quarter, primarily due to an increase in group insurance sales of $0.2 billion partially offset by a decrease in group wealth sales of $0.1 billion. The increase in group insurance was primarily due to higher large case sales while the decrease in group wealth was primarily due to lower risk based sales and segregated fund sales.

For the group wealth segregated fund business, net cash inflows for the first quarter of 2018 were $101 million, compared to net cash inflows of $282 million for the same quarter last year and net cash inflows of $214 million for the previous quarter.

Fee and other income
Fee and other income for the first quarter of 2018 increased by $10 million compared to the same quarter last year, primarily due to an increase in higher average assets under administration driven by higher average equity market levels.

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

Net earnings
Net earnings for the first quarter of 2018 of $142 million increased by $38 million compared to the same quarter last year. The increase was primarily due to more favourable mortality and morbidity experience, higher contributions from insurance contract liability basis changes and lower expenses driven by the Canadian business transformation, partially offset by lower contributions from investment experience.

Net earnings for the first quarter of 2018 decreased by $51 million compared to the previous quarter. The decrease was primarily due to lower contributions from investment experience and less favourable morbidity experience.

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

In the first quarter of 2018, net earnings were $36 million compared to net earnings of $5 million for the same period last year. The change in net earnings was primarily due to the favorable impact of changes to certain income tax estimates and higher net investment income, including higher fair value adjustments on investment properties held in Canada Corporate.

Net earnings for the first quarter of 2018 increased by $53 million, compared to a net loss of $17 million in the previous quarter. Included in the fourth quarter of 2017 was a net charge of $19 million relating to the impact of U.S. tax reform. Excluding this item, net earnings for the first quarter increased $34 million, primarily due to higher net investment income, including higher fair value adjustments on investment properties held in Canada Corporate, and a more favourable impact from changes to certain income tax estimates.

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

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

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

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

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

Selected consolidated financial information - United States

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Premiums and deposits	**$ 16,345**	$ 14,150	$ 17,558
Sales	**25,076**	19,162	24,352
Fee and other income[(2)]	**631**	635	619
Net earnings - common shareholders	**75**	(298)	56
Net earnings (US$) - common shareholders	**59**	(234)	42
Adjusted net earnings - common shareholders[(1)]	**75**	75	67
Adjusted net earnings - common shareholders (US$)[(1)]	**59**	60	50
Total assets[(3)]	**$ 85,070**	$ 84,063	$ 87,625
Proprietary mutual funds and institutional net assets	**235,926**	232,623	228,245
Total assets under management	**320,996**	316,686	315,870
Other assets under administration	**617,388**	597,596	564,835
Total assets under administration	**$ 938,384**	$ 914,282	$ 880,705

(1) Adjusted net earnings attributable to common shareholders is a non-IFRS measure of earnings performance and reflects adjustments of restructuring costs of $11 million (US$8 million) relating to the Financial Services business unit in the first quarter of 2017. Adjusted net earnings for the fourth quarter of 2017 included tax reform impacts of $251 million (US$198 million) and the impact of the sale of an equity investment in Nissay Asset Management Corporation (Nissay) of $122 million (US$96 million).

(2) Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers,* as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2018.

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

2018 DEVELOPMENTS

- On April 6, 2016, the U.S. Department of Labor (“DOL”) issued a rule redefining and expanding who is a fiduciary by reason of providing investment advice to a retirement plan or holder of an individual retirement account. The DOL issued an 18-month delay for full compliance with the rule to July 1, 2019. However, on March 15, 2018, the United States Court of Appeals for the Fifth Circuit released an opinion vacating the rule in its entirety. If the DOL does not request a rehearing or an appeal to the U.S. Supreme Court, the rule will be vacated on or about May 7, 2018 and the DOL’s prior five-part test rule will be restored. The Company continues to monitor any developments or proposed revisions and will comply with the ultimate ruling.
- On April 18, 2018, the Securities and Exchange Commission released its proposal on the standards applicable to brokers and advisors. The proposal will have a 90 day comment period and would be applicable to all retail investors. The Company will monitor any developments or proposed revisions and is preparing to comply with the standards.
- The Tax Reconciliation Act, which was signed in December 2017, among other changes, lowered the U.S. corporate federal income tax rate from 35% to 21% effective on January 1, 2018. As a result, net earnings in the first quarter of 2018 reflect net income, tax effected at the lower 21% rate. Other provisions of the tax bill did not have a material effect on taxable income in the first quarter of 2018.

BUSINESS UNITS – UNITED STATES

FINANCIAL SERVICES

2018 DEVELOPMENTS

- Empower Retirement participant accounts have grown to 8.5 million at March 31, 2018 from 8.3 million at December 31, 2017.
- Empower Retirement assets under administration grew to over US$534 billion at March 31, 2018, up from US$530 billion at December 31, 2017.

OPERATING RESULTS

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Premiums and deposits	**$ 3,110**	$ 3,134	$ 3,598
Sales[(1)]	**11,841**	8,146	10,392
Fee and other income[(2)]	**341**	340	331
Net earnings	**91**	80	85
Premiums and deposits (US$)	**$ 2,468**	$ 2,467	$ 2,726
Sales (US$)[(1)]	**9,398**	6,414	7,873
Fee and other income (US$)[(2)]	**270**	268	251
Net earnings (US$)	**72**	64	64

(1) For the three months ended March 31, 2018, sales included US$0.3 billion relating to Putnam managed funds sold on the Empower Retirement platform (US$0.5 billion for the three months ended March 31, 2017 and US$0.4 billion for the three months ended December 31, 2017).

(2) Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers,* as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2018.

Premiums and deposits

Premiums and deposits for the first quarter of 2018 of US$2.5 billion decreased by US$0.3 billion compared to the same quarter last year, primarily due to lower deposits from existing Empower Retirement participants and lower sales in the executive benefits and retail bank insurance lines of business for Individual Markets.

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

Sales

Sales in the first quarter of 2018 increased by US$1.5 billion to US$9.4 billion compared to the same quarter last year, primarily due to an increase in Empower Retirement sales driven by higher small and mid-sized plan sales, partially offset by lower large plan sales. Large plan sales can be highly variable from period to period and tend to be lower margin.

Sales in the first quarter of 2018 increased by US$3.0 billion compared to the previous quarter, primarily due to an increase in Empower Retirement sales driven by higher small and mid-sized plan sales.

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

Fee and other income for the first quarter of 2018 increased by US$19 million to US$270 million compared to the same quarter last year, primarily due to growth in participants and assets.

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

Net earnings
Net earnings for the first quarter of 2018 increased by US$8 million to US$72 million compared to the same quarter last year. The increase was primarily due to the impact of the U.S. corporate tax rate changes, which resulted in increased earnings of US$12 million, partially offset by a lower release of interest margins on insurance contract liabilities. First quarter 2017 results included US$3 million of strategic and business development expenses related to Empower Retirement.

Net earnings for the first quarter of 2018 increased by US$8 million compared to the previous quarter, primarily due to the impact of U.S. corporate tax rate changes, which resulted in increased earnings of US$14 million, and higher net fee income partially offset by lower contributions from insurance contract liability basis changes.

ASSET MANAGEMENT

2018 DEVELOPMENTS

- Putnam's ending assets under management (AUM) at March 31, 2018 of US$169.5 billion increased by US$9.5 billion compared to the same period last year, while average AUM for the three months ended March 31, 2018 of US$173.6 billion increased by US$16.1 billion compared to the same period last year. Putnam's ending AUM decreased by US$2.0 billion compared to December 31, 2017; however, average AUM increased US$3.7 billion.
- During the first quarter of 2018, Putnam completed the previously announced sale of an equity investment in Nissay Asset Management Corporation (Nissay) to Nippon Life Insurance Company (Nippon), and concurrently acquired Nippon's minority stake in PanAgora Asset Management, Inc., a quantitatively-oriented institutional asset manager that is a majority-owned subsidiary of Putnam.
- Putnam continues to sustain strong investment performance relative to its peers. As of March 31, 2018, approximately 97% and 83% of Putnam's fund assets performed at levels above the Lipper median on a one-year and five-year basis, respectively. Additionally, approximately 63% of Putnam's fund assets performed at levels above the Lipper top quartile, on a five-year basis.
- In Barron's Annual Best Fund Families rankings of 2017, Putnam ranked in the top ten for the one-year, five-year and ten-year time periods as follows:
    - Seventh (out of 58) for one-year
    - Seventh (out of 53) for five-years
    - Ninth (out of 49) for ten-years

OPERATING RESULTS

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Sales	**$ 13,235**	$ 11,016	$ 13,960
Fee income			
Investment management fees(3)	**203**	204	198
Performance fees	**(11)**	(10)	(13)
Service fees	**36**	37	38
Underwriting & distribution fees(3)	**62**	64	65
Fee income(3)	**290**	295	288
Core net earnings (loss)(1) (4)	**(3)**	(7)	(2)
Less: Financing and other expenses (after-tax)(1)	**(13)**	2	(14)
Reported net earnings (loss)(4)	**(16)**	(5)	(16)
Sales (US$)	**$ 10,504**	$ 8,674	$ 10,576
Fee income (US$)			
Investment management fees (US$)(3)	**161**	161	150
Performance fees (US$)	**(9)**	(8)	(10)
Service fees (US$)	**29**	29	29
Underwriting & distribution fees (US$)(3)	**49**	50	50
Fee income (US$)(3)	**230**	232	219
Core net earnings (loss) (US$)(1) (4)	**(2)**	(6)	(1)
Less: Financing and other expenses (after-tax) (US$)(1)	**(11)**	2	(11)
Reported net earnings (loss) (US$)(4)	**(13)**	(4)	(12)
Pre-tax operating margin(2) (3) (4)	**(0.6)%**	1.2%	(0.8)%
Average assets under management (US$)	**$ 173,554**	$ 169,837	$ 157,432

(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, fair value adjustments related to stock-based compensation, 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.

(3) Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers,* as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2018.

(4) For the three months ended December 31, 2017, core and reported net earnings exclude the impact of the net charge related to Assets Held for Sale and the impact of U.S. tax reform, which are included in U.S. Corporate.

Sales

Sales in the first quarter of 2018 decreased by US$0.1 billion to US$10.5 billion compared to the same quarter last year, primarily due to a US$1.8 billion decrease in institutional sales, mostly offset by a US$1.7 billion increase in mutual fund sales.

Sales in the first quarter of 2018 increased by US$1.8 billion compared to the previous quarter, primarily due to a US$1.5 billion increase in mutual fund sales and a US$0.3 billion increase in institutional sales.

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

Fee income for the first quarter of 2018 increased by US$11 million to US$230 million compared to the same quarter last year. The increase was primarily due to higher investment management fees driven by higher average AUM.

Fee income for the first quarter of 2018 decreased by US$2 million compared to the previous quarter, primarily due to lower institutional performance fees due to the seasonality in which these fees are earned.

Net earnings
The core net loss (a non-IFRS financial measure) for the first quarter of 2018 was US$2 million compared to core net loss of US$1 million for the same quarter last year. The increase in the core net loss was primarily due to lower net investment income, driven by lower gains on seed capital, a US$3 million one-time expense associated with lowering future technology expenses and higher variable incentive compensation. These items were mostly offset by higher fee income driven by higher AUM. In the first quarter of 2018, the reported net loss, including financing and other expenses, was US$13 million compared to a reported net loss of US$12 million for the same quarter last year. Lower financing costs were offset by the impact of a reduction in the U.S. corporate tax rate.

The core net loss for the first quarter of 2018 was US$2 million compared to core net loss of US$6 million for the previous quarter. The decrease in the core net loss was primarily due to the unfavourable impact of changes to certain income tax estimates in the fourth quarter of 2017 that did not recur partially offset by higher expenses, primarily due to a one-time expense associated with lowering future technology expenses, as well as lower performance fees and lower net investment income. The reported net loss, including financing and other expenses, for the first quarter of 2018, was US$13 million compared to a reported net loss of US$4 million in the previous quarter. Financing and other expenses for the first quarter of 2018 were US$11 million compared to an expense recovery of US$2 million for the previous quarter. The fourth quarter of 2017 included the impact of the reversal of a previously impaired indefinite life intangible asset of US$10 million. Excluding this reversal, financing and other expenses increased by US$3 million, primarily due to lower tax benefits on financing expenses due to the reduction in the U.S. corporate tax rate.

ASSETS UNDER MANAGEMENT

Assets under management ($US)

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Beginning assets	**$ 171,458**	$ 167,798	$ 152,122
Sales - Mutual funds	**6,916**	5,408	5,207
Redemptions - Mutual funds	**(7,258)**	(5,605)	(5,953)
Net asset flows - Mutual funds	**(342)**	(197)	(746)
Sales - Institutional	**3,588**	3,266	5,369
Redemptions - Institutional	**(4,451)**	(3,898)	(3,310)
Net asset flows - Institutional	**(863)**	(632)	2,059
Net asset flows - Total	**(1,205)**	(829)	1,313
Impact of market/performance	**(785)**	4,489	6,510
Ending assets	**$ 169,468**	$ 171,458	$ 159,945
Average assets under management			
Mutual funds	**79,415**	78,030	73,682
Institutional assets	**94,139**	91,807	83,750
Total average assets under management	**$ 173,554**	$ 169,837	$ 157,432

Average AUM for the three months ended March 31, 2018 were US$173.6 billion, an increase of US$16.1 billion or 10.2% compared to the same quarter last year, primarily due to the cumulative impact of positive markets over the twelve month period. Net asset outflows for the first quarter of 2018 were US$1.2 billion compared to net asset inflows of US$1.3 billion in the same quarter last year. In-quarter institutional net asset outflows were US$0.9 billion and mutual fund net asset outflows were US$0.3 billion.

Average AUM for the three months ended March 31, 2018 increased by US$3.7 billion compared to the previous quarter, primarily due to the impact of markets driven by the timing of market movements during the quarters, partially offset by net asset outflows.

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 first quarter of 2018, net earnings were nil compared to a net loss of US$10 million for the same quarter last year. First quarter 2017 results included restructuring costs of US$8 million relating to Empower Retirement and the acquisition of the J.P. Morgan Retirement Plan Services (RPS) business as well as business strategy restructuring.

In the first quarter of 2018, net earnings were nil compared to a net loss of US$294 million in the previous quarter. The net loss in the fourth quarter of 2017 included the impact of U.S. tax reform which was a net charge of US$198 million, reflecting a US$353 million reduction of deferred tax assets in the Asset Management business unit, partially offset by a US$155 million reduction, primarily related to deferred tax liabilities in the Financial Services business unit. The impact of the sale of an equity investment in Nissay, included in assets held for sale at December 31, 2017, contributed a further net charge of US$96 million in the fourth quarter of 2017. Excluding these items, net earnings for the fourth quarter of 2017 were nil.

EUROPE

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

TRANSLATION OF FOREIGN CURRENCY

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

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

Selected consolidated financial information - Europe

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Premiums and deposits	**$ 9,728**	$ 11,660	$ 9,032
Fee and other income	**364**	368	324
Net earnings - common shareholders	**344**	358	289
Adjusted net earnings - common shareholders(2)	**344**	308	306
Total assets	**$ 185,515**	$ 174,015	$ 161,469
Proprietary mutual funds and institutional net assets	**43,080**	39,521	35,713
Total assets under management	**228,595**	213,536	197,182
Other assets under administration	**43,231**	41,945	39,218
Total assets under administration(1)	**$ 271,826**	$ 255,481	$ 236,400

(1) At March 31, 2018, total assets under administration excludes $8.3 billion of assets managed for other business units within the Lifeco group of companies ($8.2 billion at December 31, 2017 and $8.1 billion at March 31, 2017).
(2) Adjusted net earnings attributable to common shareholders is a non-IFRS measure of earnings performance. Adjustments for 2017 are detailed in footnote 7 to the Selected Consolidated Financial Information table of this MD&A.

2018 DEVELOPMENTS

- On January 2, 2018, the Company, through its wholly-owned subsidiary The Canada Life Group (U.K.) Limited, completed the acquisition of U.K. financial services provider Retirement Advantage. Retirement Advantage has over 32,000 pension and equity release customers and more than £2.1 billion of assets under management including a block of in-force annuities, with liabilities and supporting assets of approximately £1.5 billion (as of March 31, 2018). The transaction is expected to be earnings accretive, although it is not expected to have a material impact on the Company's financial results.
- Subsequent to the first quarter of 2018, Irish Life Group Limited, a subsidiary of the Company, reached an agreement to acquire a strategic holding in Invesco Ltd (Ireland), an independent financial consultancy firm. Invesco manages 275 occupational pension plans on behalf of large corporations in Ireland, along with pension plans for over 500 small and medium companies. In total, Invesco has almost 55,000 members in corporate pension schemes and €4.8 billion in assets under administration, €2.3 billion of which is already managed through Irish Life Investment Managers (as of August 31, 2017). The acquisition is subject to regulatory approval and customary closing conditions, and is expected to be completed in the third quarter of 2018. The transaction is expected to be earnings accretive, although it is not expected to have a material impact on the Company's financial results.

- Some market volatility continues following the U.K.'s formal notification in March 2017 of its intention to leave the European Union (EU). As exit negotiations continue, the Company will continue to work closely with customers, business partners and regulators as the U.K. and the EU negotiate and agree on their new relationship. The Company's other European businesses may also see some impacts arising from the market uncertainty in Europe continuing from Brexit, but the impacts are not currently expected to be significant.
- During the first quarter of 2018, the Company received the following awards:
  - At the HR Leadership & Management Awards 2018, the "Best Health and Wellbeing Strategy" was awarded to Irish Life and Canada Life.
  - The Insurope Multinational Pooling Network partners awarded Canada Life U.K. with Insurope's 2017 Global Achievement Award.

BUSINESS UNITS – EUROPE

INSURANCE & ANNUITIES

OPERATING RESULTS

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Premiums and deposits[(1)]	**$ 6,412**	$ 8,665	$ 5,155
Sales[(1)]	**5,739**	7,325	4,416
Fee and other income	**360**	361	319
Net earnings	**244**	250	225

(1) For the three months ended March 31, 2018, premiums and deposits and sales exclude $0.4 billion of assets managed for other business units within the Lifeco group of companies ($0.3 billion for the three months ended December 31, 2017 and $0.3 billion for the three months ended March 31, 2017).

Premiums and deposits
Premiums and deposits for the first quarter of 2018 increased by $1.3 billion to $6.4 billion compared to the same quarter last year, primarily due to higher fund management sales in Ireland and the impact of currency movement, partially offset by lower bulk annuity sales in the U.K.

Premiums and deposits for the first quarter of 2018 decreased by $2.3 billion compared to the previous quarter, primarily due to lower fund management and bulk annuity sales in Ireland, partially offset by the impact of currency movement.

Sales
Sales for the first quarter of 2018 increased by $1.3 billion to $5.7 billion compared to the same quarter last year, primarily due to higher fund management sales in Ireland, Retirement Advantage equity release mortgage sales and the impact of currency movement, partially offset by lower bulk annuity sales in the U.K.

Sales for the first quarter of 2018 decreased by $1.6 billion compared to the previous quarter, primarily due to lower fund management and bulk annuity sales in Ireland, partially offset by Retirement Advantage equity release mortgage sales and the impact of currency movement.

Fee and other income
Fee and other income for the first quarter of 2018 increased by $41 million to $360 million compared to the same quarter last year. The increase was primarily due to the impact of currency movement and higher fee income in Ireland and Germany.

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

Net earnings
Net earnings for the first quarter of 2018 increased by $19 million to $244 million compared to the same quarter last year, primarily due to improved mortality and morbidity experience, higher contributions from insurance contract liability basis changes related to the impact of updated annuitant mortality assumptions and the impact of currency movement. These increases were partially offset by the impact of lower new business volumes in payout annuities, lower contributions from investment experience and a gain on the sale of the Company's Allianz Ireland holdings in the first quarter of 2017.

Net earnings for the first quarter of 2018 decreased by $6 million compared to the previous quarter. The decrease was primarily due to the impact of lower new business volumes in payout annuities and lower contributions from investment experience, partially offset by improved mortality experience and higher contributions from insurance contract liability basis changes.

REINSURANCE

OPERATING RESULTS

	For the three months ended		
	March 31 2018	Dec. 31 2017	March 31 2017
Premiums and deposits	**$ 3,316**	$ 2,995	$ 3,877
Fee and other income	**4**	7	5
Net earnings	**104**	67	81

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 first quarter of 2018 decreased from $3.9 billion to $3.3 billion compared to the same quarter last year, primarily due to restructured reinsurance agreements, partially offset by new reinsurance agreements and higher volumes relating to existing business.

Premiums and deposits for the first quarter of 2018 increased by $0.3 billion compared to the previous quarter, primarily due to new and restructured reinsurance agreements and higher volumes relating to existing business.

Fee and other income
Fee and other income for the first quarter of 2018 was comparable to the same period last year.

Fee and other income for the first quarter of 2018 decreased by $3 million compared to the previous quarter, primarily due to new and restructured reinsurance agreements.

Net earnings
Net earnings for the first quarter of 2018 increased by $23 million to $104 million compared to the same quarter last year. The increase was primarily due to higher contributions from insurance contract liability basis changes, partially offset by lower impacts from new business gains.

Net earnings for the first quarter of 2018 increased by $37 million compared to the previous quarter, primarily due to higher contributions from insurance contract liability basis changes and favourable mortality experience in the annuity segment, partially offset by lower impacts from new business gains and less favourable mortality experience in the traditional life segment.

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 first quarter of 2018, Europe Corporate had a net loss of $4 million compared to a net loss of $17 million for the same quarter last year primarily due to lower restructuring expenses. The first quarter of 2017 results included restructuring costs of $17 million related to Irish Life Health and the Irish Life retail businesses.

For the three months ended March 31, 2018, Europe Corporate had a net loss of $4 million compared to net earnings of $41 million for the previous quarter. Net earnings for the fourth quarter of 2017 included the impact of U.S. tax reform, which was a net positive of $54 million, primarily related to a reduction of deferred tax liabilities in the Reinsurance business unit and restructuring costs of $4 million related to Irish Life Health and the Irish Life retail businesses.

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 March 31, 2018, Lifeco Corporate had a net loss of $4 million compared to a net loss of $9 million for the same period in 2017, primarily due to higher net investment income and lower operating expenses.

The net loss for the three months ended March 31, 2018 of $4 million decreased from a net loss of $6 million in the previous quarter, primarily due to higher net investment income and a decrease in preferred share dividends related to preferred shares issued in the second quarter of 2017, partially offset by higher operating expenses. In 2018, preferred share dividends related to preferred shares issued in the second quarter of 2017 were allocated to the Canada segment.

RISK MANAGEMENT AND CONTROL PRACTICES

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

ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

Fee income includes fees earned from management of segregated fund assets, proprietary mutual fund assets, record-keeping, fees earned on administrative services only Group health contracts, commissions and fees earned from management services. Under IFRS 15, the Company recognizes revenue on the transfer of services to customers for the amount that reflects the consideration expected to be received in exchange for those services promised.

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

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

For a further description of the impact of the accounting policy change, refer to note 2 of the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2018.

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

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

OTHER INFORMATION

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

There have been no changes during the three month period ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

TRANSACTIONS WITH RELATED PARTIES

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

QUARTERLY FINANCIAL INFORMATION

Quarterly financial information (in $ millions, except per share amounts)	2018	2017				2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue(1)(2)	**$ 9,693**	$ 12,912	$ 10,222	$ 11,077	$ 12,906	$ 7,814	$ 13,408	$ 12,807
Common shareholders								
Net earnings								
Total	**$ 731**	$ 392	$ 581	$ 585	$ 591	$ 676	$ 674	$ 671
Basic - per share	**0.740**	0.397	0.587	0.591	0.598	0.686	0.682	0.675
Diluted - per share	**0.739**	0.396	0.587	0.590	0.597	0.685	0.681	0.674
Adjusted net earnings(3)								
Total	**$ 731**	$ 734	$ 582	$ 712	$ 619	$ 698	$ 689	$ 675
Basic - per share	**0.740**	0.742	0.589	0.719	0.627	0.709	0.697	0.679
Diluted - per share	**0.739**	0.741	0.588	0.718	0.625	0.707	0.696	0.678

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

(2) Comparative figures have been reclassified to reflect presentation adjustments relating to the adoption of IFRS 15, *Revenue from Contracts with Customers,* as described in the "International Financial Reporting Standards" section and in note 2 to the Company's condensed consolidated interim unaudited financial statements for the period ended March 31, 2018.

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

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

Lifeco's consolidated net earnings attributable to common shareholders were $731 million for the first quarter of 2018 compared to $591 million reported a year ago. On a per share basis, this represents $0.740 per common share ($0.739 diluted) for the first quarter of 2018 compared to $0.598 per common share ($0.597 diluted) a year ago.

Total revenue for the first quarter of 2018 was $9,693 million and comprises premium income of $8,174 million, regular net investment income of $1,573 million, a negative change in fair value through profit or loss on investment assets of $1,487 million and fee and other income of $1,433 million.

TRANSLATION OF FOREIGN CURRENCY

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

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

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

GREAT-WEST LIFECO INC.

CONSOLIDATED STATEMENTS OF EARNINGS *(unaudited)*

(in Canadian $ millions except per share amounts)

	For the three months ended		
	March 31 2018	December 31 2017 (note 2)	March 31 2017 (note 2)
Income			
Premium income			
Gross premiums written	**$ 9,293**	$ 9,672	$ 10,473
Ceded premiums	**(1,119)**	(1,178)	(1,119)
Total net premiums	**8,174**	8,494	9,354
Net investment income (note 4)			
Regular net investment income	**1,573**	1,564	1,469
Changes in fair value through profit or loss	**(1,487)**	1,415	735
Total net investment income	**86**	2,979	2,204
Fee and other income	**1,433**	1,439	1,348
	9,693	12,912	12,906
Benefits and expenses			
Policyholder benefits			
Gross	**7,996**	7,740	8,595
Ceded	**(625)**	(556)	(610)
Total net policyholder benefits	**7,371**	7,184	7,985
Policyholder dividends and experience refunds	**458**	434	558
Changes in insurance and investment contract liabilities	**(1,049)**	2,369	1,319
Total paid or credited to policyholders	**6,780**	9,987	9,862
Commissions	**594**	646	813
Operating and administrative expenses	**1,237**	1,237	1,205
Premium taxes	**121**	115	123
Financing charges	**71**	74	76
Amortization of finite life intangible assets and impairment reversal	**49**	29	45
Restructuring expenses (note 14)	**—**	5	37
Loss on assets held for sale (note 3)	**—**	202	—
Earnings before income taxes	**841**	617	745
Income taxes (note 15)	**77**	182	96
Net earnings before non-controlling interests	**764**	435	649
Attributable to non-controlling interests	**—**	10	27
Net earnings	**764**	425	622
Preferred share dividends (note 11)	**33**	33	31
Net earnings - common shareholders	**$ 731**	$ 392	$ 591
Earnings per common share (note 11)			
Basic	**$ 0.740**	$ 0.397	$ 0.598
Diluted	**$ 0.739**	$ 0.396	$ 0.597

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(unaudited)*

(in Canadian $ millions)

	For the three months ended		
	March 31 2018	December 31 2017	March 31 2017
Net earnings	**$ 764**	$ 425	$ 622
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	**755**	251	(22)
Unrealized foreign exchange gains (losses) on euro debt designated as hedges of the net investment in foreign operations	**(80)**	(40)	—
Income tax (expense) benefit	**11**	5	—
Unrealized gains (losses) on available-for-sale assets	**(87)**	20	30
Income tax (expense) benefit	**15**	(1)	(6)
Realized (gains) losses on available-for-sale assets	**1**	(12)	(8)
Income tax expense (benefit)	**—**	2	2
Unrealized gains (losses) on cash flow hedges	**26**	4	24
Income tax (expense) benefit	**(5)**	(2)	(9)
Realized (gains) losses on cash flow hedges	**12**	5	—
Income tax expense (benefit)	**(3)**	(1)	—
Non-controlling interests	**10**	(3)	(6)
Income tax (expense) benefit	**(4)**	1	2
Total items that may be reclassified	**651**	229	7
Items that will not be reclassified to Consolidated Statements of Earnings			
Re-measurements on defined benefit pension and other post-employment benefit plans (note 13)	**46**	(81)	(17)
Income tax (expense) benefit	**(9)**	3	(9)
Non-controlling interests	**(2)**	11	6
Income tax (expense) benefit	**1**	(3)	(2)
Total items that will not be reclassified	**36**	(70)	(22)
Total other comprehensive income (loss)	**687**	159	(15)
Comprehensive income	**$ 1,451**	$ 584	$ 607

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

	March 31 2018	December 31 2017
Assets		
Cash and cash equivalents	**$ 3,595**	$ 3,551
Bonds (note 4)	**124,505**	120,204
Mortgage loans (note 4)	**23,855**	22,185
Stocks (note 4)	**8,725**	8,864
Investment properties (note 4)	**5,217**	4,851
Loans to policyholders	**8,408**	8,280
	174,305	167,935
Assets held for sale (note 3)	**—**	169
Funds held by ceding insurers	**10,070**	9,893
Goodwill	**6,508**	6,179
Intangible assets	**3,794**	3,732
Derivative financial instruments	**351**	384
Owner occupied properties	**718**	706
Fixed assets	**317**	303
Other assets	**2,622**	2,424
Premiums in course of collection, accounts and interest receivable	**5,436**	4,647
Reinsurance assets (note 7)	**6,265**	5,045
Current income taxes	**226**	134
Deferred tax assets	**1,008**	930
Investments on account of segregated fund policyholders (note 8)	**221,031**	217,357
Total assets	**$ 432,651**	$ 419,838
Liabilities		
Insurance contract liabilities (note 7)	**$ 165,648**	$ 159,524
Investment contract liabilities (note 7)	**1,777**	1,841
Debentures and other debt instruments	**5,925**	5,617
Capital trust securities	**160**	160
Funds held under reinsurance contracts	**1,452**	373
Derivative financial instruments	**1,499**	1,336
Accounts payable	**3,208**	2,684
Other liabilities	**3,787**	3,752
Current income taxes	**520**	464
Deferred tax liabilities	**1,209**	1,194
Investment and insurance contracts on account of segregated fund policyholders (note 8)	**221,031**	217,357
Total liabilities	**406,216**	394,302
Equity		
Non-controlling interests		
Participating account surplus in subsidiaries	**2,763**	2,771
Non-controlling interests in subsidiaries	**185**	164
Shareholders' equity		
Share capital (note 10)		
Preferred shares	**2,714**	2,714
Common shares	**7,268**	7,260
Accumulated surplus	**12,311**	12,098
Accumulated other comprehensive income	**1,073**	386
Contributed surplus	**121**	143
Total equity	**26,435**	25,536
Total liabilities and equity	**$ 432,651**	$ 419,838

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(unaudited)*

(in Canadian $ millions)

	March 31, 2018					
	Share capital	**Contributed surplus**	**Accumulated surplus**	**Accumulated other comprehensive income (loss)**	**Non-controlling interests**	**Total equity**
Balance, beginning of year	**$ 9,974**	**$ 143**	**$ 12,098**	**$ 386**	**$ 2,935**	**$ 25,536**
Change in accounting policy (note 2)	**—**	**—**	**(64)**	**—**	**—**	**(64)**
Revised balance, beginning of year	**9,974**	**143**	**12,034**	**386**	**2,935**	**25,472**
Net earnings	**—**	**—**	**764**	**—**	**—**	**764**
Other comprehensive income (loss)	**—**	**—**	**—**	**687**	**(5)**	**682**
	9,974	**143**	**12,798**	**1,073**	**2,930**	**26,918**
Dividends to shareholders						
Preferred shareholders (note 11)	**—**	**—**	**(33)**	**—**	**—**	**(33)**
Common shareholders	**—**	**—**	**(385)**	**—**	**—**	**(385)**
Shares exercised and issued under share-based payment plans (note 10)	**11**	**(38)**	**—**	**—**	**36**	**9**
Share-based payment plans expense	**—**	**16**	**—**	**—**	**—**	**16**
Shares purchased and cancelled under Normal Course Issuer Bid (note 10)	**(15)**	**—**	**—**	**—**	**—**	**(15)**
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 10)	**12**	**—**	**(12)**	**—**	**—**	**—**
Acquisition of PanAgora non-controlling interest (note 3)	**—**	**—**	**(54)**	**—**	**(21)**	**(75)**
Dilution loss on non-controlling interests	**—**	**—**	**(3)**	**—**	**3**	**—**
Balance, end of period	**$ 9,982**	**$ 121**	**$ 12,311**	**$ 1,073**	**$ 2,948**	**$ 26,435**

	March 31, 2017					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	$ 9,644	$ 147	$ 11,465	$ 746	$ 3,006	$ 25,008
Net earnings	—	—	622	—	27	649
Other comprehensive income (loss)	—	—	—	(15)	—	(15)
	9,644	147	12,087	731	3,033	25,642
Dividends to shareholders						
Preferred shareholders (note 11)	—	—	(31)	—	—	(31)
Common shareholders	—	—	(363)	—	—	(363)
Shares exercised and issued under share-based payment plans (note 10)	124	(55)	—	—	43	112
Share-based payment plans expense	—	21	—	—	—	21
Equity settlement of Putnam share-based plans	—	—	—	—	(9)	(9)
Dilution loss on non-controlling interests	—	—	(6)	—	6	—
Disposal of investment in associate	—	—	(13)	13	—	—
Balance, end of period	$ 9,768	$ 113	$ 11,674	$ 744	$ 3,073	$ 25,372

GREAT-WEST LIFECO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

(in Canadian $ millions)

	For the three months ended March 31	
	2018	2017
Operations		
Earnings before income taxes	**$ 841**	$ 745
Income taxes paid, net of refunds received	**(123)**	(90)
Adjustments:		
Change in insurance and investment contract liabilities	**(805)**	1,652
Change in funds held by ceding insurers	**231**	225
Change in funds held under reinsurance contracts	**(4)**	4
Change in reinsurance assets	**24**	46
Changes in fair value through profit or loss	**1,487**	(735)
Other	**(492)**	(370)
	1,159	1,477
Financing Activities		
Issue of common shares (note 10)	**11**	110
Purchased and cancelled common shares (note 10)	**(15)**	—
Issue of debentures (note 9)	**498**	—
Repayment of debentures (note 9)	**(200)**	—
Decrease in line of credit of subsidiary	**(94)**	—
Increase (decrease) in debentures and other debt instruments	**(18)**	(284)
Dividends paid on common shares	**(385)**	(363)
Dividends paid on preferred shares	**(33)**	(31)
	(236)	(568)
Investment Activities		
Bond sales and maturities	**6,677**	7,826
Mortgage loan repayments	**655**	563
Stock sales	**482**	753
Investment property sales	**12**	—
Change in loans to policyholders	**3**	(13)
Proceeds from assets held for sale (note 3)	**169**	—
Business acquisitions, net of cash and cash equivalents acquired (note 3)	**(222)**	—
Investment in bonds	**(6,951)**	(8,677)
Investment in mortgage loans	**(1,094)**	(961)
Investment in stocks	**(601)**	(576)
Investment in investment properties	**(133)**	(33)
	(1,003)	(1,118)
Effect of changes in exchange rates on cash and cash equivalents	**124**	(8)
Increase (decrease) in cash and cash equivalents	**44**	(217)
Cash and cash equivalents, beginning of period	**3,551**	3,259
Cash and cash equivalents, end of period	**$ 3,595**	$ 3,042
Supplementary cash flow information		
Interest income received	**$ 1,306**	$ 1,278
Interest paid	**38**	40
Dividend income received	**58**	58

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 months ended March 31, 2018 were approved by the Board of Directors on May 3, 2018.

2. Basis of Presentation and Summary of Accounting Policies

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

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

Changes in Accounting Policies

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

Fee income includes fees earned from management of segregated fund assets, proprietary mutual fund assets, record-keeping, fees earned on administrative services only Group health contracts, commissions and fees earned from management services. Under IFRS 15, the Company recognizes revenue on the transfer of services to customers for the amount that reflects the consideration expected to be received in exchange for those services promised.

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

Comparative Figures

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

Increase (decrease)	**Gross premiums written**	**Fee and other income**	**Commissions**	**Operating and administrative expenses**
For the three months ended December 31, 2017				
Amounts previously reported	$ 9,684	$ 1,403	$ 587	$ 1,272
Reclassification	(12)	36	59	(35)
Revised amount presented	$ 9,672	$ 1,439	$ 646	$ 1,237
For the three months ended March 31, 2017				
Amounts previously reported	$ 10,484	$ 1,305	$ 753	$ 1,233
Reclassification	(11)	43	60	(28)
Revised amount presented	$ 10,473	$ 1,348	$ 813	$ 1,205

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

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

Use of Significant Judgments, Estimates and Assumptions

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

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

3. Business Acquisitions, Disposals and Other Transactions

(a) Retirement Advantage

On January 2, 2018, the Company, through its indirect wholly-owned subsidiary The Canada Life Group (UK) Ltd., completed the acquisition of 100% of the outstanding shares of MGM Advantage Holdings Ltd. which operates as Retirement Advantage a financial services provider based in the United Kingdom that offers retirement and equity release services.

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

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

As at March 31, 2018, the accounting for the acquisition is incomplete pending completion of a comprehensive valuation of the net assets acquired. The financial statements at March 31, 2018 reflect management's best estimate of the purchase price allocation, which includes provisional amounts. The comprehensive evaluation of the assets acquired and liabilities assumed, and completion of the purchase price allocation will be finalized during 2018. The initial amount assigned to goodwill of $240 on the date of acquisition will be adjusted during the year.

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

(b) EverWest Real Estate Partners

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

(c) Acquisition of PanAgora Non-Controlling Interest

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

(d) Disposal of Assets Held for Sale

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

<u>Subsequent event</u>

On April 20, 2018, the Company, through its indirect wholly owned subsidiary Irish Life Group Limited, entered into an agreement to acquire a controlling interest in Invesco Ltd (Ireland), an independent financial consultancy firm in Ireland. The acquisition is not expected to be material.

4. Portfolio Investments

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

	March 31, 2018		December 31, 2017	
	Carrying value	**Fair value**	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss [1]	**$ 90,756**	**$ 90,756**	$ 88,062	$ 88,062
Classified fair value through profit or loss [1]	**1,827**	**1,827**	1,836	1,836
Available-for-sale	**13,714**	**13,714**	12,347	12,347
Loans and receivables	**18,208**	**19,508**	17,959	19,470
	124,505	**125,805**	120,204	121,715
Mortgage loans				
Residential				
Designated fair value through profit or loss [1][3]	**832**	**832**	—	—
Loans and receivables	**9,178**	**9,306**	8,905	9,083
	10,010	**10,138**	8,905	9,083
Commercial	**13,845**	**14,327**	13,280	13,922
	23,855	**24,465**	22,185	23,005
Stocks				
Designated fair value through profit or loss [1]	**8,129**	**8,129**	8,097	8,097
Available-for-sale	**14**	**14**	55	55
Available-for-sale, at cost [2]	**239**	**239**	348	348
Equity method	**343**	**348**	364	406
	8,725	**8,730**	8,864	8,906
Investment properties	**5,217**	**5,217**	4,851	4,851
Total	**$ 162,302**	**$ 164,217**	$ 156,104	$ 158,477

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

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

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

[3] Equity release mortgages acquired with the acquisition of Retirement Advantage (note 3) are designated at fair value through profit or loss. There are no market observable prices for equity release mortgages; therefore an internal discounted cash flow model is used to value these assets. These mortgage loans are included at level 3 of the fair value hierarchy (note 6).

(b) Included in portfolio investments are the following:

Carrying amount of impaired investments

	March 31 2018	December 31 2017
Impaired amounts by classification		
Fair value through profit or loss	$ **202**	$ 233
Available-for-sale	**37**	17
Loans and receivables	**36**	41
Total	$ **275**	$ 291

The carrying amount of impaired investments includes $230 bonds, $32 mortgage loans and $13 stocks at March 31, 2018 ($246 bonds, $34 mortgage loans and $11 stocks at December 31, 2017). The above carrying values for loans and receivables are net of allowances of $29 at March 31, 2018 and $40 at December 31, 2017.

(c) Net investment income comprises the following:

For the three months ended March 31, 2018	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	$ 1,074	$ 227	$ 57	$ 85	$ 123	$ 1,566
Net realized gains (losses)						
Available-for-sale	(2)	—	1	—	—	(1)
Other classifications	4	58	—	—	—	62
Other income (expenses)	—	—	—	(23)	(31)	(54)
	1,076	285	58	62	92	1,573
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(7)	—	—	—	—	(7)
Designated fair value through profit or loss	(1,404)	(17)	(258)	—	141	(1,538)
Recorded at fair value through profit or loss	—	—	—	58	—	58
	(1,411)	(17)	(258)	58	141	(1,487)
Total	$ (335)	$ 268	$ (200)	$ 120	$ 233	$ 86

4. Portfolio Investments (cont'd)

For the three months ended March 31, 2017	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	$ 1,034	$ 223	$ 66	$ 81	$ 91	$ 1,495
Net realized gains						
Available-for-sale	8	—	—	—	—	8
Other classifications	9	13	—	—	—	22
Net allowances for credit losses on loans and receivables	—	(4)	—	—	—	(4)
Other income (expenses)	—	—	—	(21)	(31)	(52)
	1,051	232	66	60	60	1,469
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	11	—	—	—	—	11
Designated fair value through profit or loss	529	—	158	—	5	692
Recorded at fair value through profit or loss	—	—	—	32	—	32
	540	—	158	32	5	735
Total	$ 1,591	$ 232	$ 224	$ 92	$ 65	$ 2,204

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

5. Financial Instruments Risk Management

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

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

(a) Credit Risk

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

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

(b) Liquidity Risk

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

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

(c) Market Risk

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

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

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

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.

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

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

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

	March 31, 2018		December 31, 2017	
	1% increase	**1% decrease**	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in non-participating insurance and investment contract liabilities	**$ (200)**	**$ 679**	$ (215)	$ 720
Increase (decrease) in net earnings	**$ 141**	**$ (495)**	$ 150	$ (523)

(iii) Equity Risk

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

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

	March 31, 2018		December 31, 2017	
	10% increase	**10% decrease**	10% increase	10% decrease
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	**$ (72)**	**$ 170**	$ (58)	$ 109
Increase (decrease) in net earnings	**$ 61**	**$ (132)**	$ 48	$ (85)

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

	March 31, 2018		December 31, 2017	
	1% increase	**1% decrease**	1% increase	1% decrease
Change in best estimate return assumptions for equities				
Increase (decrease) in non-participating insurance contract liabilities	**$ (610)**	**$ 683**	$ (542)	$ 591
Increase (decrease) in net earnings	**$ 496**	**$ (546)**	$ 439	$ (470)

6. Fair Value Measurement

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

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

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

6. Fair Value Measurement (cont'd)

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

	March 31, 2018			
Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 3,595	$ —	$ —	$ 3,595
Financial assets at fair value through profit or loss				
Bonds	—	92,516	67	92,583
Mortgage loans	—	—	832	832
Stocks	7,847	—	282	8,129
Total financial assets at fair value through profit or loss	7,847	92,516	1,181	101,544
Available-for-sale financial assets				
Bonds	—	13,714	—	13,714
Stocks	7	6	1	14
Total available-for-sale financial assets	7	13,720	1	13,728
Investment properties	—	—	5,217	5,217
Funds held by ceding insurers	85	7,937	—	8,022
Derivatives [(1)]	7	344	—	351
Other assets:				
Trading account assets	614	252	—	866
Other [(2)]	—	123	—	123
Total assets measured at fair value	$ 12,155	$ 114,892	$ 6,399	$ 133,446
Liabilities measured at fair value				
Derivatives [(3)]	$ 5	$ 1,494	$ —	$ 1,499
Investment contract liabilities	—	1,754	23	1,777
Other liabilities	—	123	—	123
Total liabilities measured at fair value	$ 5	$ 3,371	$ 23	$ 3,399

(1) Excludes collateral received from counterparties of $34.
(2) Includes collateral received under securities lending agreements.
(3) Excludes collateral pledged to counterparties of $593.

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

6. Fair Value Measurement (cont'd)

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

(1) Excludes collateral received from counterparties of $77.
(2) Excludes collateral pledged to counterparties of $374.

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

6. Fair Value Measurement (cont'd)

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

	March 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**	**Total Level 3 assets**	**Investment contract liabilities**
Balance, beginning of year	$ 65	$ —	$ 243	$ 1	$ 4,851	$ 5,160	$ 22
Total gains (losses)							
Included in net earnings	(1)	(17)	8	—	58	48	—
Included in other comprehensive income [1]	3	51	1	—	187	242	—
Business acquisition (note 3)	—	799	—	—	—	799	—
Purchases	—	10	30	—	133	173	—
Sales	—	(11)	—	—	(12)	(23)	—
Other	—	—	—	—	—	—	1
Transfers into Level 3	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—
Balance, end of period	$ 67	$ 832	$ 282	$ 1	$ 5,217	$ 6,399	$ 23
Total gains (losses) for the period included in net investment income	$ (1)	$ (17)	$ 8	$ —	$ 58	$ 48	$ —
Change in unrealized gains (losses) for the period included in earnings for assets held at March 31, 2018	$ (1)	$ (17)	$ 8	$ —	$ 57	$ 47	$ —

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

6. Fair Value Measurement (cont'd)

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

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

6. Fair Value Measurement (cont'd)

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

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate Reversionary rate Vacancy rate	Range of 2.5% - 10.3% Range of 4.0% - 7.5% Weighted average of 2.1%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value. A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value. A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.
Mortgage loans (fair value through profit or loss)	The valuation approach for equity release mortgages is to use an internal valuation model to determine the projected asset cash flows, including the stochastically calculated cost of the no negative-equity guarantee for each individual loan, to aggregate these across all loans and to discount those cash flows back to the valuation date. The projection is done monthly until expected redemption of the loan either voluntarily or on the death/ entering into long term care of the loanholders.	Discount rate	4.25%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

7. Insurance and Investment Contract Liabilities

	March 31, 2018		
	Gross liability	**Reinsurance assets**	**Net**
Insurance contract liabilities	**$ 165,648**	**$ 6,265**	**$ 159,383**
Investment contract liabilities	**1,777**	**—**	**1,777**
Total	**$ 167,425**	**$ 6,265**	**$ 161,160**

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

8. Segregated Funds

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

(a) Investments on account of segregated fund policyholders

	March 31 2018	December 31 2017
Cash and cash equivalents	$ **13,671**	$ 13,300
Bonds	**43,113**	42,270
Mortgage loans	**2,660**	2,610
Stocks and units in unit trusts	**96,427**	93,465
Mutual funds	**54,565**	54,658
Investment properties	**11,842**	11,520
	222,278	217,823
Accrued income	**451**	373
Other liabilities	**(2,659)**	(2,441)
Non-controlling mutual funds interest	**961**	1,602
Total	$ **221,031**	$ 217,357

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

	For the three months ended March 31 2018	2017
Balance, beginning of year	$ **217,357**	$ 200,403
Additions (deductions):		
Policyholder deposits	**6,410**	6,082
Net investment income	**496**	215
Net realized capital gains on investments	**1,501**	1,235
Net unrealized capital gains (losses) on investments	**(4,848)**	3,461
Unrealized gains (losses) due to changes in foreign exchange rates	**6,588**	(52)
Policyholder withdrawals	**(6,791)**	(5,928)
Business acquisition [1]	**950**	—
Change in Segregated Fund investment in General Fund	**3**	(35)
Change in General Fund investment in Segregated Fund	**(3)**	(2)
Net transfer from General Fund	**9**	7
Non-controlling mutual funds interest	**(641)**	(720)
Total	**3,674**	4,263
Balance, end of period	$ **221,031**	$ 204,666

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

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

	March 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments on account of segregated fund policyholders [1]	**$ 139,384**	**$ 70,700**	**$ 12,703**	**$ 222,787**

[1] Excludes other liabilities, net of other assets, of $1,756.

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

[1] Excludes other liabilities, net of other assets, of $1,718.

During the first three months of 2018 certain foreign stock holdings valued at $175 have been transferred from Level 1 to Level 2 ($629 were transferred from Level 1 to Level 2 at December 31, 2017) primarily based on the Company utilizing inputs in addition to quoted prices in active markets for certain foreign stock holdings. Level 2 assets include those assets where fair value is not available from normal market pricing sources, where inputs are utilized in addition to quoted prices in active markets and where the Company does not have visibility through to the underlying assets.

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

	March 31 2018	December 31 2017
Balance, beginning of year	**$ 12,572**	$ 12,045
Total gains included in segregated fund investment income	**310**	422
Purchases	**76**	926
Sales	**(251)**	(943)
Transfers into Level 3	**4**	137
Transfers out of Level 3	**(8)**	(15)
Balance, end of period	**$ 12,703**	$ 12,572

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

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

9. Debentures and Other Debt Instruments

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

On March 21, 2018, the Company redeemed its 6.14% $200 debenture notes at their principal amount together with accrued interest.

Subsequent Event

Subsequent to the first quarter of 2018, Great-West Lifeco Finance (Delaware) LP II announced its intention to redeem all $500 principal amount of its 7.127% subordinated debentures due June 26, 2068 on June 26, 2018 at a redemption price equal to 100% of the principal amount of the debentures, plus any accrued interest up to but excluding the redemption date.

10. Share Capital

(a) Common Shares

	For the three months ended March 31			
	2018		2017	
	Number	**Carrying value**	Number	Carrying value
Common shares				
Balance, beginning of year	**988,722,659**	**$ 7,260**	986,398,335	$ 7,130
Purchased and cancelled under Normal Course Issuer Bid	**(431,000)**	**(15)**	(12,698)	—
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid	**—**	**12**	—	—
Exercised and issued under stock option plan	**330,380**	**11**	3,552,684	124
Balance, end of period	**988,622,039**	**$ 7,268**	989,938,321	$ 7,254

During the three months ended March 31, 2018, 330,380 common shares were exercised under the Company's stock plan with a carrying value of $11, including $1 from contributed surplus transferred upon exercise (3,552,684 with a carrying value of $124, including $14 from contributed surplus transferred upon exercise during the three months ended March 31, 2017).

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

During the three months ended March 31, 2018, the Company repurchased and subsequently cancelled 431,000 common shares under the current normal course issuer bid at a cost of $15 (12,698 during the three months ended March 31, 2017 under the previous normal course issuer bid at a cost of less than $1). The Company's share capital was reduced by the average carrying value of the shares repurchased for cancellation. The excess paid over the average carrying value was $12 and was recognized as a reduction to equity during the three months ended March 31, 2018 (less than $1 during the three months ended March 31, 2017 under the previous normal course issuer bid).

11. Earnings per Common Share

	For the three months ended March 31	
	2018	2017
Earnings		
Net earnings	**$ 764**	$ 622
Preferred share dividends	**(33)**	(31)
Net earnings - common shareholders	**$ 731**	$ 591
Number of common shares		
Average number of common shares outstanding	**988,611,044**	987,690,025
Add: Potential exercise of outstanding stock options	**1,109,312**	2,137,788
Average number of common shares outstanding - diluted basis	**989,720,356**	989,827,813
Basic earnings per common share	**$ 0.740**	$ 0.598
Diluted earnings per common share	**$ 0.739**	$ 0.597
Dividends per common share	**$ 0.3890**	$ 0.3670

12. Capital Management

(a) Policies and Objectives

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

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

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of the Company ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholders value in the context of the Company's operational risks and strategic plans.

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

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

(b) Regulatory Capital

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

The LICAT Ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer, defined by OSFI, is the aggregate of all defined capital requirements multiplied by a scalar of 1.05. The total capital resources are provided by the sum of Available Capital, Surplus Allowance and Eligible Deposits. The following provides a summary of the LICAT information and ratios for Great-West Life, for the first reporting period ending March 31, 2018:

	March 31 2018
Tier 1 Capital	**$ 12,536**
Tier 2 Capital	**3,212**
Total Available Capital	**15,748**
Surplus Allowance & Eligible Deposits	**10,342**
Total Capital Resources	**$ 26,090**
Base Solvency Buffer (includes 1.05 scalar)	**$ 20,034**
Total LICAT Ratio (OSFI Supervisory Target = 100%) (1)	**130%**

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

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

13. Pension Plans and Other Post-Employment Benefits

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

	For the three months ended March 31	
	2018	2017
Pension plans		
Service costs	**$ 59**	$ 51
Net interest costs	**6**	6
	65	57
Other post-employment benefits		
Service costs	**1**	1
Net interest costs	**3**	3
	4	4
Pension plans and other post-employment benefits expense - Consolidated Statements of Earnings	**69**	61
Pension plans - re-measurements		
Actuarial (gain) loss	**(99)**	103
Return on assets greater (less) than assumed	**57**	(83)
Administrative expenses less than assumed	**(1)**	(1)
Change in the asset ceiling	**—**	(12)
Actuarial loss - investment in associate	**—**	1
Pension plans re-measurement (gain) loss	**(43)**	8
Other post-employment benefits - re-measurements		
Actuarial (gain) loss	**(3)**	9
Pension plans and other post-employment benefits re-measurements - other comprehensive (income) loss	**(46)**	17
Total pension plans and other post-employment benefits expense including re-measurements	**$ 23**	$ 78

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:

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

14. Restructuring Expenses

Canadian Business Transformation
At March 31, 2018, the Company has a restructuring provision of $73 remaining in other liabilities. The change in the restructuring provision for the Canadian Business Transformation is set out below:

Balance, beginning of year	**$**	**120**
Amounts used		**(47)**
Balance, end of period	**$**	**73**

15. Income Taxes

(a) Income Tax Expense

Income tax expense (recovery) consists of the following:

	For the three months ended March 31			
	2018		2017	
Current income taxes	**$**	**84**	$	104
Deferred income taxes		**(7)**		(8)
Total income tax expense	**$**	**77**	$	96

(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 Lifeco for the three months ended March 31, 2018 was 9.1% compared to 12.9% for the three months ended March 31, 2017.

The effective income tax rate for the three months ended March 31, 2018 is lower than the effective income tax rate for the same period last year due to changes in certain tax estimates as well as higher earnings in low-tax jurisdictions, including the impact of the lower U.S. corporate federal tax rate.

The first quarter 2018 effective income tax rate of 9.1% was lower than the fourth quarter 2017 rate of 29.5%. On December 22, 2017, the *Tax Reconciliation Act* was substantively enacted. The legislation, which was generally effective for tax years beginning on January 1, 2018, results in significant U.S. tax reform and revises the Internal Revenue Code by, among other things, lowering the corporate federal income tax rate from 35% to 21% and modifying how the U.S. taxes multinational entities. As a result of these changes, the Company revalued certain deferred tax balances and insurance contract liabilities and updated certain expense provisions in 2017. The fourth quarter of 2017 net impact of these items was an increase in the Company's fourth quarter of 2017 effective income tax rate by 21%. Excluding the impact of U.S. tax reform, the Company's effective income tax rate for the fourth quarter of 2017 is comparable to the effective income tax rate for the first quarter of 2018.

16. Segmented Information

Consolidated Net Earnings

For the three months ended March 31, 2018

	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	$ 3,151	$ 1,074	$ 3,949	$ —	$ 8,174
Net investment income					
Regular net investment income	612	441	517	3	1,573
Changes in fair value through profit or loss	(334)	(580)	(573)	—	(1,487)
Total net investment income (loss)	278	(139)	(56)	3	86
Fee and other income	438	631	364	—	1,433
	3,867	1,566	4,257	3	9,693
Benefits and expenses					
Paid or credited to policyholders	2,639	752	3,389	—	6,780
Other [(1)]	816	674	457	5	1,952
Financing charges	32	29	10	—	71
Amortization of finite life intangible assets	20	21	8	—	49
Earnings (loss) before income taxes	360	90	393	(2)	841
Income taxes	46	13	18	—	77
Net earnings (loss) before non-controlling interests	314	77	375	(2)	764
Non-controlling interests	—	—	—	—	—
Net earnings (loss)	314	77	375	(2)	764
Preferred share dividends	28	—	5	—	33
Net earnings (loss) before capital allocation	286	77	370	(2)	731
Impact of capital allocation	30	(2)	(26)	(2)	—
Net earnings (loss) - common shareholders	$ 316	$ 75	$ 344	$ (4)	$ 731

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

For the three months ended March 31, 2017

	Canada	United States	Europe	Lifeco Corporate	Total
Income	(note 2)	(note 2)			(note 2)
Total net premiums	$ 3,284	$ 1,229	$ 4,841	$ —	$ 9,354
Net investment income					
Regular net investment income (loss)	613	455	402	(1)	1,469
Changes in fair value through profit or loss	375	102	258	—	735
Total net investment income (loss)	988	557	660	(1)	2,204
Fee and other income	405	619	324	—	1,348
	4,677	2,405	5,825	(1)	12,906
Benefits and expenses					
Paid or credited to policyholders	3,245	1,552	5,065	—	9,862
Other (1)	1,035	711	386	9	2,141
Financing charges	30	34	12	—	76
Amortization of finite life intangible assets	17	21	7	—	45
Restructuring expenses	—	17	20	—	37
Earnings (loss) before income taxes	350	70	335	(10)	745
Income taxes (recovery)	65	11	23	(3)	96
Net earnings (loss) before non-controlling interests	285	59	312	(7)	649
Non-controlling interests	29	(1)	(1)	—	27
Net earnings (loss)	256	60	313	(7)	622
Preferred share dividends	26	—	5	—	31
Net earnings (loss) before capital allocation	230	60	308	(7)	591
Impact of capital allocation	25	(4)	(19)	(2)	—
Net earnings (loss) - common shareholders	$ 255	$ 56	$ 289	$ (9)	$ 591

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

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