

POWER FINANCIAL CORPORATION

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This document contains management's discussion and analysis of the financial condition, financial performance and cash flows of Power Financial Corporation (the Corporation) for the three months and six months ended June 30, 2019 and the unaudited interim condensed consolidated financial statements of the Corporation as at and for the three months and six months ended June 30, 2019. This document has been filed with the securities regulatory authorities in each of the provinces and territories of Canada and mailed to requesting shareholders of the Corporation in accordance with applicable securities laws.

POWER FINANCIAL CORPORATION	PART A
GREAT-WEST LIFECO INC.	PART B
IGM FINANCIAL INC.	PART C
PARGESA HOLDING SA	PART D

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POWER FINANCIAL CORPORATION

PART A

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

AUGUST 2, 2019

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

The following presents Management's Discussion and Analysis (MD&A) of the unaudited interim condensed consolidated financial condition and financial performance of Power Financial Corporation (Power Financial or the Corporation) (TSX: PWF), a public corporation, for the six-month and three-month periods ended June 30, 2019. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of Power Financial and notes thereto for the six-month and three-month periods ended June 30, 2019 (the Interim Consolidated Financial Statements), the MD&A for the year ended December 31, 2018 (the 2018 Annual MD&A), and the audited consolidated financial statements and notes thereto for the year ended December 31, 2018 (the 2018 Consolidated Financial Statements). Additional information relating to Power Financial, including its Annual Information Form, may be found on the Corporation's website at www.powerfinancial.com and on SEDAR at www.sedar.com.

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

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

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

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

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

The following abbreviations are used throughout this report:

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

Organization of the Interim MD&A

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Overview

POWER FINANCIAL CORPORATION

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

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

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

Value creation

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

Investment Principles	- Invest in companies that have a long-term perspective and investment horizon - Support operating companies' management to build industry leaders - Focus on high growth and high return on equity products and market segments - Perform a disciplined, fact-based analysis
Operating Principles	- Majority or significant level of ownership - Focus on strategy, people and capital allocation - Prudent, risk-aware and focus on creating and maintaining a strong balance sheet
Governance Principles	- Active governance model through boards of subsidiaries - Board composition is a combination of Power Financial executives and external directors - Power Financial executives provide substantial industry and company knowledge - External directors provide expertise and diverse perspectives

Holdings

Lifeco and IGM are leaders across the insurance, asset management, and wealth and retirement business sectors in their principal markets: Canada, the U.S. and Europe. Power Financial has supported these companies through various acquisitions and the group strategically benefits through:

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

Power Financial, in partnership with Lifeco and IGM, has been actively participating in the emerging fintech industry. The group believes that fintech will change business models in financial services, making financial advice, insurance and investment services more accessible to consumers and available to them by the means and at the time that best suits them. The fintech strategy aims at providing an attractive return on the capital invested while helping the existing financial services businesses transform their models.

The investments to date have contributed to building leading platforms that are expected to be part of the next generation of financial services. The fintech strategy enables the group to learn from, adopt and integrate new technologies and understand how these disruptive business models will affect the current business and how to react to changes in the environment to be more effective. The fintech strategy has three objectives:

- Through Portag3, create an ecosystem of early-stage investments in promising fintech companies that have potential for global impact;
- Make significant investments in leading digital financial services providers including Wealthsimple, one of Canada's largest digital financial advisors; and
- Develop a fintech venture builder to support the creation of the next generation of Canadian-based global fintech companies.

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

POWER FINANCIAL CORPORATION

The Corporation and its group of companies have laid the foundation for future value creation, including:

- Continued focus on long-term shareholder value creation;
- Growing earnings organically by capitalizing on the scale of our leading franchises in a rapidly changing environment;
- Actively seeking opportunities to deploy capital in accretive acquisitions;
- Pursuing technology-enabled solutions in financial services to enhance incumbent businesses;
- Rotation of GBL's portfolio to accelerate value creation.

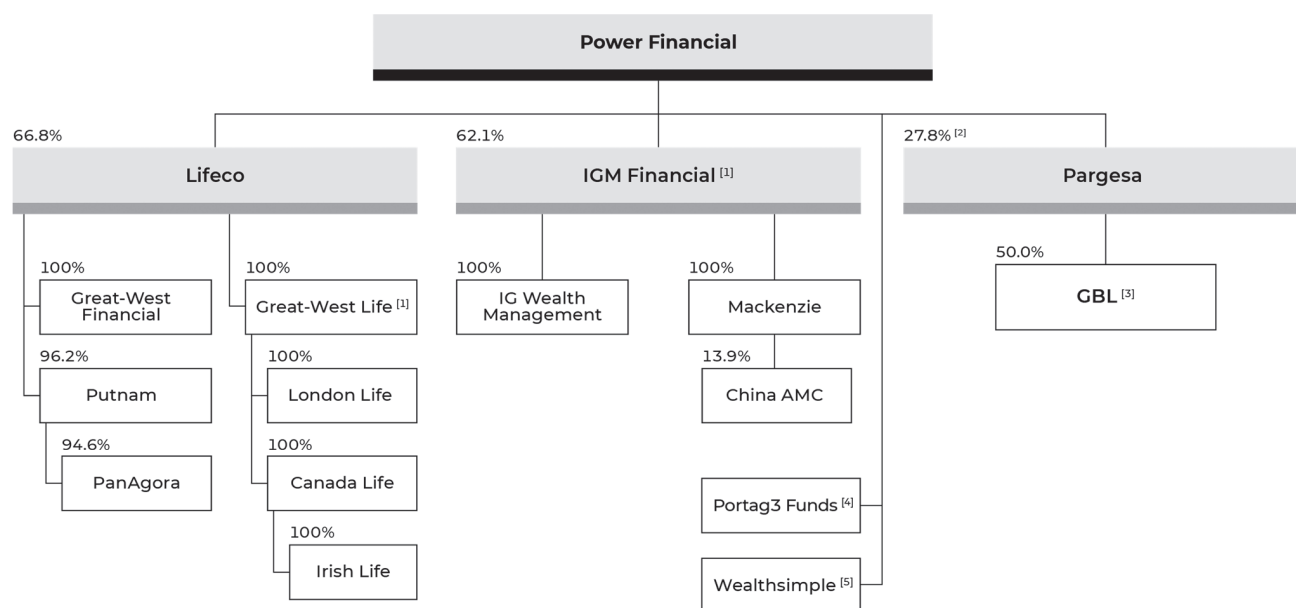
Organization of the MD&A

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

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

Lifeco (TSX: GWO) and IGM (TSX: IGM) are public companies listed on the Toronto Stock Exchange. Pargesa is a public company listed on the Swiss Stock Exchange (SIX: PARC). Market capitalizations reported in the following sections are at June 30, 2019.

The following chart reflects the economic interests held by the Corporation in its operating subsidiaries and certain other investments at June 30, 2019.



In bold: Publicly listed holdings

[1] Great-West Life holds a 3.9% interest in IGM, and IGM holds a 4.0% interest in Lifeco.

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

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

[4] Power Financial holds a 63% interest, and Lifeco and IGM also hold equal interests of 18.5%, in Portag3. Power Financial, Lifeco and IGM also hold equal interests of 11.7% in Portag3 II.

[5] Power Financial holds a 19.6% interest, and Portag3 and IGM also hold interests of 17.3% and 44.9%, respectively, in Wealthsimple.

SUBSTANTIAL ISSUER BIDS

On April 17, 2019, Lifeco completed a substantial issuer bid (Lifeco SIB), and purchased for cancellation 59,700,974 of its common shares, representing approximately 6.0% of the issued and outstanding common shares prior to the repurchase, at a purchase price of \$33.50 per common share, for an aggregate amount of \$2.0 billion. Power Financial supported Lifeco through its participation in the Lifeco SIB. As a result of the Lifeco SIB, the Corporation's equity interest in Lifeco decreased from 67.8% to 66.8% (excluding IGM's 4.0% interest) after giving effect to the cancellation of Lifeco common shares. IGM also participated in the Lifeco SIB, tendering on a proportionate basis.

Power Financial used the proceeds from its participation in the Lifeco SIB to fund its own substantial issuer bid. On April 17, 2019, Power Financial completed its substantial issuer bid (PFC SIB), and purchased for cancellation 49,999,973 of its common shares, representing approximately 7.0% of the issued and outstanding common shares prior to the repurchase, at a purchase price of \$33.00 per common share, for an aggregate amount of \$1.65 billion. The substantial issuer bid allowed the Corporation to return capital to shareholders, while maintaining a strong capital position to fund future growth opportunities.

LIFECO

Great-West Lifeco Inc., TSX: GWO; market capitalization of \$28.0 billion at June 30, 2019, is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Lifeco has operations in Canada, the United States and Europe through Great-West Life, London Life, Canada Life, Great-West Financial, Putnam and Irish Life. For reporting purposes, Lifeco has four reportable segments: Canada, the United States, Europe and Corporate, which reflect geographic lines as well as the management and corporate structure of the companies.

In Canada, through the Individual Customer and Group Customer business units, Lifeco offers a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, including life, disability and critical illness insurance products as well as wealth savings and income and other speciality products. On April 3, 2019, Lifeco announced that its three Canadian life insurance companies, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company, are moving to one brand in Canada: Canada Life. Canada Life will become the brand under which the organization will create, deliver and communicate products and services in Canada across all of its lines of business.

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

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

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

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

At June 30, 2019, Power Financial and IGM held interests of 66.8% and 4.0%, respectively, in Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares. The *Insurance Companies Act* limits voting rights in life insurance companies to 65%.

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

IGM FINANCIAL

IGM Financial Inc., TSX: IGM; market capitalization of \$8.9 billion at June 30, 2019, is a leading wealth and asset management company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly, primarily within the advice segment of the financial services market. Its activities are carried out through its subsidiaries IG Wealth Management, Mackenzie Investments and Investment Planning Counsel.

IG Wealth Management offers an exclusive family of mutual funds and other investment vehicles, and a wide range of insurance, securities, mortgage products and other financial services. IG Wealth Management offers IG Living Plan™, a holistic, client-centric approach to financial planning that reflects the evolving needs, goals and aspirations of Canadian families and individuals. The IG Living Plan™ provides a single, integrated view of all aspects of a client's finances, including retirement and estate planning, investments, and tax strategies, creating a truly synchronized and comprehensive plan. IG Wealth Management provides its services through its exclusive network of consultants across Canada. It strives to distinguish itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships.

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

IGM holds a 13.9% interest in China AMC, one of the first fund management companies in China, which has developed and maintained its position among the market leaders in China's asset management industry. China AMC's assets under management, excluding subsidiary assets under management, were RMB¥880 billion (C\$175 billion) at December 31, 2018. Power Financial's parent company, Power Corporation, directly holds a 13.9% equity interest in China AMC. Power Corporation and IGM hold a combined 27.8% interest in China AMC. Power Corporation and IGM have significant influence and account for their interests as an associate using the equity method.

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

At June 30, 2019, Power Financial and Great-West Life, a subsidiary of Lifeco, held interests of 62.1% and 3.9%, respectively, in IGM's common shares.

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

PARGESA AND GBL

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère Group each hold a 50% interest in Parjointco. At June 30, 2019, Parjointco held a 55.5% interest in Pargesa, representing 75.4% of the voting rights.

Pargesa, SIX: PARC; market capitalization of SF6.4 billion, is a holding company, which, at June 30, 2019, held a 50% interest in GBL, representing 51.5% of the voting rights. GBL, a Belgian holding company, is listed on the Brussels Stock Exchange.

GBL, EBR: GBLB; market capitalization of €13.9 billion, is one of the largest listed holding companies in Europe. As a holding company focused on long-term value creation, GBL relies on a stable, family shareholder base. Its portfolio is comprised of global industrial and services companies, leaders in their markets, in which GBL plays its role of professional shareholder.

At June 30, 2019, GBL's portfolio was mainly comprised of investments in the following publicly traded companies:

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

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

During the second quarter of 2019, GBL finalized its exit from the energy sector by selling 0.6% of its interest in Total through forward sales contracts maturing in January 2020. GBL expects to realize a gain of €411 million.

On July 9, 2019, GBL announced that it had entered into exclusive negotiations to acquire a majority stake in the Webhelp group, one of the world's leading providers of customer experience and business process outsourcing.

At June 30, 2019, Pargesa's net asset value was SF10,291 million, compared with SF8,973 million at December 31, 2018. GBL's net asset value at June 30, 2019 was €18,701 million, compared with €16,193 million at December 31, 2018.

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

PORTAG3 AND WEALTHSIMPLE

Power Financial, together with IGM and Lifeco (the group), are anchor investors in funds managed by an affiliate, Portag3 Ventures, which operates investment funds dedicated to backing innovative financial services companies that have the potential for change and global impact. To date, Portag3 Ventures has invested in more than 45 fintech companies and investment funds. At the end of 2018, the management and operations of Portag3 Ventures were transferred under Sagard Holdings, a subsidiary of Power Corporation.

Portag3 Ventures' first fintech fund (Portag3) held investments of \$65 million at June 30, 2019 (\$54 million at December 31, 2018), excluding the investment in Wealthsimple discussed below.

At June 30, 2019, Portag3, Power Financial and IGM held, through a limited partnership controlled by Power Financial, undiluted equity interests in Wealthsimple of 17.3%, 19.6% and 44.9%, respectively, representing a combined voting interest of 82.3% and a diluted equity interest of 67.2%. Wealthsimple is one of Canada's largest and fastest-growing technology-driven investment managers. On May 22, 2019, Wealthsimple announced the closing of a \$100 million Series B investment round, led by a third party, AllianzX, the digital investment unit of Germany-based insurer and asset manager Allianz Group. Wealthsimple continues to expand its presence in the marketplace with assets under administration of over \$4.5 billion at May 22, 2019. Wealthsimple has expanded its distribution reach through offering Wealthsimple Invest, Wealthsimple Save, Wealthsimple Trade, Wealthsimple for Advisors (W4A) and Wealthsimple for Work (W4W) and serves over 150,000 clients across the Canadian, United States and United Kingdom markets.

During the second quarter of 2019, as part of the Series B financing round, Power Financial and IGM invested \$20 million and \$30 million, respectively, in Wealthsimple, which includes the conversion of \$20 million of previously issued promissory notes. At June 30, 2019, the cost of the group's investment was \$289 million.

Portag3 II, Portag3 Ventures' second fintech fund, is focused on early stage investments in the global financial technology sector. At June 30, 2019, total capital commitments were \$282 million, of which \$33 million has been committed by each of Power Financial, Lifeco and IGM for a total of \$99 million. The fair value of the investments held by the fund at June 30, 2019 was \$124 million (\$67 million at December 31, 2018).

Basis of Presentation

IFRS FINANCIAL MEASURES AND PRESENTATION

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

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

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

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

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

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

At June 30, 2019, the Corporation's holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
Lifeco ^[1]	66.8	Controlling interest	Consolidation
IGM ^[2]	62.1	Controlling interest	Consolidation
Pargesa ^[3]	27.8	Joint control	Equity method
Portag3 ^[4]	63.0	Controlling interest	Consolidation
Portag3 II ^[5]	11.7	Controlling interest	Consolidation
Wealthsimple ^[6]	19.6	Controlling interest	Consolidation

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

[2] Great-West Life also holds a 3.9% interest in IGM.

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

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

[5] Lifeco and IGM also hold equal interests of 11.7% in Portag3 II.

[6] Portag3 and IGM also hold interests of 17.3% and 44.9%, respectively, in Wealthsimple.

At June 30, 2019, Pargesa's publicly listed holdings were as follows:

Holdings	% economic interest	Nature of investment	Accounting method
GBL	50.0	Controlling interest	Consolidation
Imerys	54.0	Controlling interest	Consolidation
adidas	6.8	Portfolio investment	Available for sale
Pernod Ricard	7.5	Portfolio investment	Available for sale
SGS	16.6	Portfolio investment	Available for sale
LafargeHolcim	9.1	Portfolio investment	Available for sale
Umicore	18.0	Portfolio investment	Available for sale
Total	0.6	Portfolio investment	Available for sale
GEA	8.5	Portfolio investment	Available for sale
Ontex	20.0	Portfolio investment	Available for sale
Parques	21.2	Significant influence	Equity method
Other investments	< 5.0	Portfolio investments	Available for sale

This summary of accounting presentation should be read in conjunction with the following notes to the Corporation's 2018 Consolidated Financial Statements:

- Basis of presentation and summary of significant accounting policies (Note 2);
- Investments (Note 6);
- Investments in jointly controlled corporations and associates (Note 8);
- Goodwill and intangible assets (Note 11); and
- Non-controlling interests (Note 20).

NON-IFRS FINANCIAL MEASURES AND PRESENTATION

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

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

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

RECONCILIATION OF IFRS AND NON-IFRS FINANCIAL MEASURES

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

	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
Net earnings – IFRS financial measure ^[1]	979	1,244	443	536	658
Share of Other items ^[2] , net of tax					
Lifeco	134	-	134	-	-
IGM	5	-	5	-	-
Pargesa	7	-	7	-	-
	146	-	146	-	-
Adjusted net earnings – Non-IFRS financial measure ^[1]	1,125	1,244	589	536	658

[1] Attributable to common shareholders of Power Financial.

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

	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
Net earnings per share – IFRS financial measure ^[1]	1.41	1.74	0.66	0.75	0.92
Share of Other items ^[2] , net of tax					
Lifeco	0.19	-	0.20	-	-
IGM	0.01	-	0.01	-	-
Pargesa	0.01	-	0.01	-	-
	0.21	-	0.22	-	-
Adjusted net earnings per share – Non-IFRS financial measure ^[1]	1.62	1.74	0.88	0.75	0.92

[1] Attributable to common shareholders of Power Financial.

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

Results of Power Financial

This section presents:

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

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

DEFERRAL OF IFRS 9, FINANCIAL INSTRUMENTS (IFRS 9)

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts* and will be applied retrospectively. In November 2018, the IASB proposed an amendment to IFRS 17 providing a deferral of one year of the effective date of the standard to January 1, 2022. In addition, the IASB extended to January 1, 2022 the exemption for insurers to apply the financial instruments standard, IFRS 9, *Financial Instruments*, so that both IFRS 9 and IFRS 17 will have the same effective date.

IGM, a subsidiary and Pargesa, held through Parjointco, a jointly controlled corporation do not qualify for the exemption and adopted IFRS 9 on January 1, 2018. The Corporation, in accordance with the amendment of IFRS 4 to defer the adoption of IFRS 9, is permitted but not required to retain the accounting policies applied by an associate or a jointly controlled corporation which is accounted for using the equity method. The Corporation decided to continue applying accounting policies in accordance with IAS 39, *Financial Instruments*, to Pargesa’s results. On consolidation, the Corporation has adjusted the results of both IGM and Pargesa to be in accordance with IAS 39. Refer to the specific discussion included in the IGM and Pargesa sections “Contribution to net earnings and adjusted net earnings”.

CONSOLIDATED STATEMENTS OF EARNINGS IN ACCORDANCE WITH IFRS

Power Financial's consolidated statements of earnings for the six months and three months ended June 30, 2019 are presented below. The Corporation's operating segments are Lifeco, IGM and Pargesa. This table reflects the contributions from Lifeco, IGM and Pargesa to the net earnings attributable to Power Financial's common shareholders.

Consolidated net earnings – Six months ended

	Lifeco	IGM ^[1]	Pargesa ^[2]	Corporate ^[3]	Power Financial Consolidated net earnings	
					June 30, 2019	June 30, 2018
Revenues						
Total net premiums ^[4]	5,708	–	–	(10)	5,698	16,068
Net investment income	9,857	84	–	(17)	9,924	1,348
Fee income ^[4]	4,070	1,502	–	(35)	5,537	4,384
Total revenues	19,635	1,586	–	(62)	21,159	21,800
Expenses						
Total paid or credited to policyholders	13,882	–	–	–	13,882	14,336
Commissions	1,208	550	–	(26)	1,732	1,715
Operating and administrative expenses	3,037	534	–	60	3,631	3,395
Financing charges	144	53	–	21	218	150
Total expenses	18,271	1,137	–	55	19,463	19,596
Earnings before investments in jointly controlled corporations and associates, and income taxes	1,364	449	–	(117)	1,696	2,204
Share of earnings of investments in jointly controlled corporations and associates	–	7	132	4	143	104
Earnings before income taxes	1,364	456	132	(113)	1,839	2,308
Income taxes	183	101	–	5	289	344
Net earnings	1,181	355	132	(118)	1,550	1,964
Attributable to						
Non-controlling interests	431	135	–	(64)	502	651
Perpetual preferred shareholders	–	–	–	69	69	69
Common shareholders of Power Financial	750	220	132	(123)	979	1,244
	1,181	355	132	(118)	1,550	1,964

[1] Results reported by IGM are in accordance with IFRS 9. As the Corporation has not adopted IFRS 9, adjustments in accordance with IAS 39 have been recognized on consolidation and included in "Corporate".

[2] Results reported by Pargesa are in accordance with IFRS 9. The Corporation's share of earnings of Pargesa includes adjustments in accordance with IAS 39, including the Corporation's share of a gain realized on the sale of an investment classified as FVOCI by Pargesa and an impairment charge.

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

[4] As a result of Lifeco's sale, via indemnity insurance, of its U.S. individual life insurance and annuity business to Protective Life, total net premiums include \$13.9 billion of premiums ceded to Protective Life and fee income includes \$1.1 billion of ceding commission received from Protective Life.

Consolidated net earnings – Three months ended

	Lifeco	IGM ^[1]	Pargesa ^[2]	Corporate ^[3]	Power Financial Consolidated net earnings		
					June 30, 2019	March 31, 2019	June 30, 2018
Revenues							
Total net premiums ^[4]	(3,887)	–	–	(5)	(3,892)	9,590	7,899
Net investment income	4,042	35	–	(17)	4,060	5,864	1,243
Fee income ^[4]	2,591	766	–	(14)	3,343	2,194	2,218
Total revenues	2,746	801	–	(36)	3,511	17,648	11,360
Expenses							
Total paid or credited to policyholders	(30)	–	–	–	(30)	13,912	7,556
Commissions	598	275	–	(10)	863	869	851
Operating and administrative expenses	1,553	260	–	29	1,842	1,789	1,703
Financing charges	72	28	–	11	111	107	44
Total expenses	2,193	563	–	30	2,786	16,677	10,154
Earnings before investments in jointly controlled corporations and associates, and income taxes	553	238	–	(66)	725	971	1,206
Share of earnings of investments in jointly controlled corporations and associates	–	3	86	4	93	50	52
Earnings before income taxes	553	241	86	(62)	818	1,021	1,258
Income taxes	53	56	–	–	109	180	212
Net earnings	500	185	86	(62)	709	841	1,046
Attributable to							
Non-controlling interests	194	75	–	(37)	232	270	353
Perpetual preferred shareholders	–	–	–	34	34	35	35
Common shareholders of Power Financial	306	110	86	(59)	443	536	658
	500	185	86	(62)	709	841	1,046

[1] Results reported by IGM are in accordance with IFRS 9. As the Corporation has not adopted IFRS 9, adjustments in accordance with IAS 39 have been recognized on consolidation and included in "Corporate".

[2] Results reported by Pargesa are in accordance with IFRS 9. The Corporation's share of earnings of Pargesa includes adjustments in accordance with IAS 39, including the Corporation's share of a gain realized on the sale of an investment classified as FVOCI by Pargesa and an impairment charge.

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

[4] As a result of Lifeco's sale, via indemnity insurance, of its U.S. individual life insurance and annuity business to Protective Life, total net premiums include \$13.9 billion of premiums ceded to Protective Life and fee income includes \$1.1 billion of ceding commission received from Protective Life.

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

NON-CONSOLIDATED STATEMENTS OF EARNINGS

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

	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
Adjusted net earnings ^[1]					
Lifeco ^[2]	884	1,057	440	444	562
IGM ^[2]	225	228	115	110	121
Pargesa ^[2]	139	80	93	46	36
	1,248	1,365	648	600	719
Corporate operations	(54)	(52)	(25)	(29)	(26)
Dividends on perpetual preferred shares	(69)	(69)	(34)	(35)	(35)
Adjusted net earnings ^[3]	1,125	1,244	589	536	658
Other items ^[4]					
Lifeco	(134)	-	(134)	-	-
IGM	(5)	-	(5)	-	-
Pargesa	(7)	-	(7)	-	-
	(146)	-	(146)	-	-
Net earnings ^[3]	979	1,244	443	536	658
Earnings per share – basic ^[3]					
Adjusted net earnings	1.62	1.74	0.88	0.75	0.92
Other items	(0.21)	-	(0.22)	-	-
Net earnings	1.41	1.74	0.66	0.75	0.92

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

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

[3] Attributable to common shareholders.

[4] See "Other items" section below.

2019 vs. 2018	Q2 2019 vs. Q2 2018 and Q1 2019
Net earnings	
\$979 million or \$1.41 per share, compared with \$1,244 million or \$1.74 per share in the corresponding period in 2018, a decrease of 19.0% on a per share basis.	\$443 million or \$0.66 per share, compared with \$658 million or \$0.92 per share in the corresponding period in 2018, a decrease of 28.3% on a per share basis, and \$536 million or \$0.75 per share in the first quarter of 2019.
Adjusted net earnings	
\$1,125 million or \$1.62 per share, compared with \$1,244 million or \$1.74 per share in the corresponding period in 2018, a decrease of 6.9% on a per share basis.	\$589 million or \$0.88 per share, compared with \$658 million or \$0.92 per share in the corresponding period in 2018, a decrease of 4.3% on a per share basis, and \$536 million or \$0.75 per share in the first quarter of 2019.
Contribution to net earnings and adjusted net earnings from Lifeco, IGM and Pargesa	
Contribution to net earnings of \$1,102 million, compared with \$1,365 million in the corresponding period in 2018, a decrease of 19.3%.	Contribution to net earnings of \$502 million, compared with \$719 million in the corresponding period in 2018, a decrease of 30.2%, and \$600 million in the first quarter of 2019.
Contribution to adjusted net earnings of \$1,248 million, compared with \$1,365 million in the corresponding period in 2018, a decrease of 8.6%.	Contribution to adjusted net earnings of \$648 million, compared with \$719 million in the corresponding period in 2018, and \$600 million in the first quarter of 2019.

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

CONTRIBUTION TO NET EARNINGS AND ADJUSTED NET EARNINGS

LIFECO

Contribution to Power Financial

	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
Contribution to Power Financial's ^[1] :					
Adjusted net earnings					
As reported by Lifeco	886	1,058	441	445	563
Consolidation entries	(2)	(1)	(1)	(1)	(1)
	884	1,057	440	444	562
Other items	(134)	-	(134)	-	-
Net earnings	750	1,057	306	444	562

[1] The average direct ownership of Power Financial in Lifeco was 67.0% for the quarter ended June 30, 2019 (67.8% in the first quarter of 2019).

Adjusted and net earnings by segment as reported by Lifeco

	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
Canada					
Individual Customer	259	349	135	124	211
Group Customer	312	336	161	151	194
Canada Corporate	(8)	(35)	(16)	8	(71)
	563	650	280	283	334
United States					
Financial Services ^[1]	115	125	62	53	65
Asset Management	2	(24)	6	(4)	(8)
U.S. Corporate	2	52	3	(1)	52
Reinsured Insurance & Annuity Business ^[1, 2]	63	67	30	33	36
	182	220	101	81	145
Europe					
Insurance and Annuities	410	525	207	203	281
Reinsurance	174	201	77	97	97
Europe Corporate	(3)	(27)	(2)	(1)	(23)
	581	699	282	299	355
Lifeco Corporate	(11)	(7)	(5)	(6)	(3)
Adjusted net earnings ^[3]	1,315	1,562	658	657	831
Other items ^[2]	(199)	-	(199)	-	-
Net earnings^[3]	1,116	1,562	459	657	831

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

[2] Other items represent amounts which have been excluded from the Reinsured Insurance & Annuity Business unit of the U.S. segment. Refer to the "Other items" section.

[3] Attributable to Lifeco common shareholders.

2019 vs. 2018	Q2 2019 vs. Q2 2018 and Q1 2019
Net earnings	
\$1,116 million or \$1.159 per share, compared with \$1,562 million or \$1.579 per share in the corresponding period in 2018, a decrease of 26.6% on a per share basis.	\$459 million or \$0.489 per share, compared with \$831 million or \$0.839 per share in the corresponding period in 2018, and \$657 million or \$0.665 per share in the first quarter of 2019. Lifeco's net earnings in the second quarter of 2018 include a net positive impact of \$60 million after tax arising from refinancing in the U.S. segment completed in the second quarter of 2018.
Adjusted net earnings	
\$1,315 million or \$1.365 per share, compared with \$1,562 million or \$1.579 per share in the corresponding period in 2018, a decrease of 13.6% on a per share basis.	\$658 million or \$0.701 per share, compared with \$831 million or \$0.839 per share in the corresponding period in 2018, a decrease of 16.4% on a per share basis, and \$657 million or \$0.665 per share in the first quarter of 2019.

CANADA

Net earnings for the six-month period ended June 30, 2019 decreased by \$87 million to \$563 million, compared with the corresponding period in 2018.

Net earnings for the three-month period ended June 30, 2019 decreased by \$54 million to \$280 million, compared with the corresponding quarter in 2018.

There were no other items in the first and second quarters of 2019 and 2018.

Individual Customer

Net earnings for the six-month period ended June 30, 2019 decreased by \$90 million to \$259 million, compared with the same period last year. The decrease was primarily due to:

- Lower contributions from insurance contract liability basis changes;
- Lower net fee income;
- Unfavourable policyholder behaviour experience; and
- Less favourable impact of changes to certain income tax estimates;
- Partially offset by higher contributions from investment experience.

Net earnings for the three-month period ended June 30, 2019 decreased by \$76 million to \$135 million, compared with the same quarter last year. The decrease was primarily due to the same reasons as discussed in the six-month period above.

Group Customer

Net earnings for the six-month period ended June 30, 2019 decreased by \$24 million to \$312 million, compared with the same period last year. The decrease was primarily due to:

- Higher expenses related to strategic investments; and
- Less favourable impact of changes to certain income tax estimates;
- Partially offset by more favourable morbidity experience.

Net earnings for the three-month period ended June 30, 2019 decreased by \$33 million to \$161 million, compared with the same quarter last year. The decrease was primarily due to lower contributions from insurance contract liability basis changes.

UNITED STATES

Net earnings for the six-month period ended June 30, 2019 decreased by \$237 million to a net loss of \$17 million, compared with the corresponding period in 2018. Adjusted net earnings were \$182 million in the six-month period ended June 30, 2019, and excluded other items of \$199 million. There were no other items in the corresponding period.

Net earnings for the three-month period ended June 30, 2019 decreased by \$243 million to a net loss of \$98 million, compared with the corresponding quarter in 2018. Adjusted net earnings were \$101 million in the three-month period ended June 30, 2019, and excluded other items of \$199 million. There were no other items in the corresponding quarter.

Financial Services

For the six-month period ended June 30, 2019, net earnings were US\$86 million (C\$115 million), compared with US\$99 million (C\$125 million) in the corresponding period in 2018. The decrease of US\$13 million was primarily due to:

- Higher operating expenses; and
- Lower contributions from investment experience.

For the three-month period ended June 30, 2019, net earnings were US\$46 million (C\$62 million), compared with US\$51 million (C\$65 million) in the same quarter last year. The decrease of US\$5 million is primarily due to:

- Higher operating expenses;
- Partially offset by higher contributions from investment experience.

Asset Management

For the six-month period ended June 30, 2019, net earnings were US\$2 million (C\$2 million), compared with a net loss of US\$19 million (C\$24 million) in the corresponding period in 2018. The increase in net earnings of US\$21 million was primarily due to:

- Higher net investment income on seed capital and lower operating expenses, which included the impact of expense reduction initiatives;
- Partially offset by lower net fee income driven by a change in asset mix.

Net earnings also include financing and other expenses after tax of US\$19 million (C\$26 million). Financing and other expenses decreased by US\$3 million from the corresponding period in 2018 primarily due to lower financing costs.

For the three-month period ended June 30, 2019, net earnings increased by US\$11 million to US\$5 million (C\$6 million), compared with the same quarter last year. The increase is primarily due to the same reasons as discussed in the six-month period above.

Net earnings in the second quarter of 2019 also includes financing and other expenses after tax of US\$10 million (C\$14 million), comparable to the corresponding quarter in 2018.

Reinsured Insurance & Annuity Business

For the six-month period ended June 30, 2019, the net loss was US\$101 million (C\$136 million) compared to net earnings of US\$51 million (C\$67 million) for the same period last year. Excluding other items which comprise a net charge of US\$148 million (C\$199 million) relating to the reinsurance transaction with Protective Life (refer to the overview section "Lifeco"), adjusted net earnings decreased by US\$4 million compared to the same period last year, reflecting the timing of the reinsurance transaction with Protective Life during the second quarter.

For the three-month period ended June 30, 2019, the net loss was US\$126 million (C\$169 million) compared to net earnings of US\$27 million (C\$36 million) for the same quarter last year. Excluding the other items discussed in the six-month period above, adjusted net earnings decreased by US\$5 million compared to the same quarter last year.

POWER FINANCIAL CORPORATION

EUROPE

Net earnings for the six-month period ended June 30, 2019 decreased by \$118 million to \$581 million, compared with the corresponding period in 2018.

Net earnings for the three-month period ended June 30, 2019 decreased by \$73 million to \$282 million, compared with the corresponding quarter in 2018.

Insurance and Annuities

Net earnings for the six-month period ended June 30, 2019 decreased by \$115 million to \$410 million, compared with the same period last year. The decrease was primarily due to:

- Lower contributions from insurance contract liability basis changes;
- The impact of impairment charges on mortgage loans and reductions in expected property cash flows primarily associated with a U.K. retail tenant entering a prepackaged administration; and
- Higher claims from morbidity experience in Ireland and the impact of changes to certain tax estimates;
- Partially offset by the favourable impact of new business.

Net earnings for the three-month period ended June 30, 2019 decreased by \$74 million to \$207 million, compared with the same quarter last year. The decrease was primarily due to:

- Lower contributions from insurance contract liability basis changes;
- Less favourable impacts of changes to certain income tax estimates; and
- The impact of impairment charges on mortgage loans and reductions in expected cash flows as discussed in the six-month period above;
- Partially offset by the favourable impact of new business from U.K. bulk annuity sales.

Reinsurance

Net earnings for the six-month period ended June 30, 2019 decreased by \$27 million to \$174 million, compared with the same period last year. The decrease was primarily due to:

- Unfavourable initial impacts of new business;
- Less favourable claims experience in the life and annuity business; and
- Lower contributions from insurance contract liability basis changes;
- Partially offset by higher business volumes.

Net earnings for the three-month period ended June 30, 2019 decreased by \$20 million to \$77 million, compared with the same quarter last year. The decrease was primarily due to:

- Lower contributions from insurance contract liability basis changes; and
- Unfavourable initial impacts from new business;
- Partially offset by higher business volumes.

OTHER ITEMS

There were no Other items in the first quarter of 2019. In the second quarter, Other items of \$199 million consisted of a net loss on the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life on June 1, 2019. The net charge includes transaction costs of \$63 million and \$36 million due to updated expense assumptions related to stranded overhead on the retained business.

There were no Other items in the first and second quarters of 2018.

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

IGM FINANCIAL

Contribution to Power Financial

	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
Contribution to Power Financial's ^[1] :					
Adjusted net earnings					
As reported by IGM	222	239	119	103	125
Consolidation entries ^[2]	3	(11)	(4)	7	(4)
	225	228	115	110	121
Share of Lifeco's other items	(5)	-	(5)	-	-
Net earnings	220	228	110	110	121

[1] The average direct ownership of Power Financial in IGM was 61.9% for the quarter ended June 30, 2019.

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

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

	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
IC Wealth Management	358	380	195	163	197
Mackenzie	81	91	45	36	49
Corporate and other	78	93	37	41	47
Adjusted net earnings (before interest, income taxes, preferred share dividends and other) ^[1]	517	564	277	240	293
Interest expense, income taxes, preferred share dividends and other ^[2]	(156)	(175)	(84)	(72)	(90)
Adjusted net earnings ^[3]	361	389	193	168	203
Other items ^[4]	(8)	-	(8)	-	-
Net earnings^[3]	353	389	185	168	203

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

[2] Interest expense includes interest on long-term debt and also includes interest on leases of \$2.1 million in the six-month period ended June 30, 2019, as a result of IGM's adoption of IFRS 16, *Leases*.

[3] Available to IGM common shareholders.

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

2019 vs. 2018	Q2 2019 vs. Q2 2018 and Q1 2019
Net earnings	
\$353 million or \$1.47 per share, compared with \$389 million or \$1.61 per share in the corresponding period in 2018, a decrease of 8.7% on a per share basis.	\$185 million or \$0.77 per share, compared with \$203 million or \$0.85 per share in the corresponding period in 2018, a decrease of 9.4% on a per share basis, and \$168 million or \$0.70 per share in the first quarter of 2019.
Adjusted net earnings	
\$361 million or \$1.50 per share, compared with \$389 million or \$1.61 per share in the corresponding period in 2018, a decrease of 6.8% on a per share basis.	\$193 million or \$0.81 per share, compared with \$203 million or \$0.85 per share in the corresponding period in 2018, a decrease of 4.7% on a per share basis, and \$168 million or \$0.70 per share in the first quarter of 2019.

POWER FINANCIAL CORPORATION

On January 1, 2018, IGM adopted IFRS 9, *Financial Instruments*. Power Financial has deferred the adoption of IFRS 9 and continues to apply IAS 39, *Financial Instruments: Recognition and Measurement*. The contribution to Power Financial includes adjustments to reverse the impact of the application of IFRS 9 by IGM.

In January 2019, IGM invested a further \$66.8 million (US\$50 million) in Personal Capital which increased its voting interest to 22.7%. IGM has significant influence and accounts for its interest as an associate using the equity method. In accordance with IFRS 9, IGM previously classified its interest in Personal Capital as fair value through other comprehensive income (FVOCI), in which fair value changes remain permanently in equity. In accordance with IAS 39, the Corporation accounted for IGM's investment in Personal Capital as available for sale. The reclassification of the investment in the first quarter from available for sale to an associate, under IAS 39, resulted in a gain; the contribution of IGM to Power Financial has been adjusted accordingly.

The following is a summary of each segment's net earnings:

IG WEALTH MANAGEMENT

Net earnings decreased by \$22 million in the six-month period ended June 30, 2019, compared with the corresponding period in 2018, due to:

- A decrease in administration fees of \$6 million to \$149 million. The decrease resulted primarily from the movement of assets into unbundled products which are not charged certain administration fees and changes in the composition of average assets under management;
- An increase in expenses of \$22 million to \$630 million in the six-month period, mainly due to an increase in non-commission expenses, primarily due to increased technology expenses in the first quarter relating to the migration of clients to a new dealer platform and unbundled fee arrangements, as well as continued expenses associated with IG Wealth Management's brand relaunch. Asset-based compensation also increased in the six-month period primarily due to an increase in assets under management;

Partially offset by:

- An increase in income from management fees of \$4 million to \$730 million. The increase was primarily due to an increase in average assets under management of 0.8%. The average management fee rate decreased by 0.2 basis points to 166.5 basis points of average assets under management; and
- An increase in distribution fee income of \$2 million to \$86 million. The increase was primarily due to an increase in distribution fee income from insurance products offset by lower redemption fees.

Net earnings decreased by \$2 million in the three-month period ended June 30, 2019, compared with the corresponding quarter in 2018, primarily due to:

- An increase in expenses of \$12 million to \$310 million in the three-month period, mainly due to an increase in asset-based compensation of \$8 million as explained above and an increase in non-commission expenses;

Partially offset by:

- An increase in income from management fees of \$6 million to \$372 million. The increase was primarily due to an increase in average assets under management of 2.5%. The average management fee rate decreased by 0.8 basis points to 165.9 basis points of average assets under management reflecting pricing reductions effective March 1, 2019; and
- An increase in distribution fee income of \$4 million to \$45 million, as explained above.

MACKENZIE

Net earnings decreased by \$10 million in the six-month period ended June 30, 2019, compared with the corresponding period in 2018, due to:

- A decrease in management fee revenue of \$8 million to \$345 million, due to a decline in the average management fee rate, partially offset by the increase in total average assets under management of 1.8%. The average management fee rate decreased by 4.4 basis points to 104.0 basis points due to a change in the composition of assets under management; and
- A decrease in administration fee revenue of \$2 million to \$48 million.
- These decreases were partially offset by an increase in net investment income and other of \$3 million.

Net earnings decreased by \$4 million in the three-month period ended June 30, 2019, compared with the corresponding quarter in 2018, mainly due to a decrease of \$2 million in net investment income and other as a result of a decrease in investment returns on Mackenzie's investments in proprietary funds.

ASSETS AND INVESTMENT FUND ASSETS UNDER MANAGEMENT

Total assets under management were as follows:

(In billions of dollars)	June 30, 2019	March 31, 2019	June 30, 2018	March 31, 2018
IG Wealth Management	90.2	89.4	88.8	87.1
Mackenzie	68.6	67.8	67.0	65.2
Corporate and other ^[1]	3.5	3.3	3.3	3.5
Total	162.3	160.5	159.1	155.8

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

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

(In billions of dollars)	Q2	2019 Q1	Q4	Q3	2018 Q2	2018 Q1
IG Wealth Management	90.2	87.0	85.1	89.4	88.0	87.8
Mackenzie	60.8	58.2	57.1	59.5	57.9	57.1
Corporate and other ^[1]	4.7	4.7	4.8	5.1	5.0	5.2
Total	155.7	149.9	147.0	154.0	150.9	150.1

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

OTHER ITEMS

There were no Other items in the first quarter of 2019. In the second quarter, Other items of \$8 million consisted of IGM's proportionate share of Lifeco's other items.

There were no Other items in the first and second quarters of 2018.

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

PARGESA

Contribution to Power Financial

(In millions of Canadian dollars)	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
Contribution to Power Financial's ^[1] :					
Adjusted net earnings					
As reported by Pargesa	90	79	56	34	57
Consolidation entries ^[2]	49	1	37	12	(21)
	139	80	93	46	36
Other items	(7)	-	(7)	-	-
Net earnings	132	80	86	46	36

[1] The average ownership of Power Financial in Pargesa was 27.8% for the quarter ended June 30, 2019.

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

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

(In millions of Swiss francs)	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
Contribution from the portfolio to adjusted net earnings					
Share of earnings of:					
Imerys	50	68	26	24	37
Parques	(7)	(3)	(7)	-	(3)
Dividends:					
LafargeHolcim	64	58	64	-	58
SGS	50	50	-	50	-
adidas	25	21	25	-	21
Pernod Ricard	14	12	14	-	12
Total	10	10	10	-	10
Umicore	10	9	10	-	9
GEA	8	6	8	-	6
Ontex	4	6	4	-	6
Other ^[1]	18	-	17	1	-
Contribution from private equity activities and other investment funds	21	11	10	11	15
	267	248	181	86	171
Net financial income (charges)	(5)	(13)	(22)	17	(7)
General expenses and taxes	(16)	(17)	(7)	(9)	(8)
Adjusted net earnings ^[2, 3]	246	218	152	94	156
Other items	(21)	(5)	(18)	(3)	(4)
Net earnings^[3]	225	213	134	91	152

[1] Mainly consists of a reimbursement of withholding taxes to be received from the French tax authorities related to dividends received from Engie between 2013 and 2015.

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

[3] Attributable to Pargesa shareholders.

2019 vs. 2018	Q2 2019 vs. Q2 2018 and Q1 2019
Net earnings	
SF225 million, compared with SF213 million in the corresponding period in 2018, an increase of 5.6%.	SF134 million, compared with SF152 million in the corresponding period in 2018, a decrease of 11.8%, and SF91 million in the first quarter of 2019.
Adjusted net earnings	
SF246 million, compared with SF218 million in the corresponding period in 2018, an increase of 12.8%.	SF152 million, compared with SF156 million in the corresponding period in 2018, a decrease of 2.6%, and SF94 million in the first quarter of 2019.

Adjustments to the contribution of Pargesa

On January 1, 2018, Pargesa adopted IFRS 9, *Financial Instruments*. The majority of its investments in public entities are classified as FVOCI, an elective classification for equity instruments in which all fair value changes remain permanently in OCI.

The investments in private equity and other investment funds are classified as fair value through profit or loss (FVPL). The transition requirements of IFRS 9 required that all unrealized gains and losses at January 1, 2018 on investments previously classified as available for sale remain permanently in equity. Starting January 1, 2018, subsequent changes in fair value are recorded in earnings.

Power Financial has deferred the adoption of IFRS 9 and continues to apply IAS 39. The following table presents adjustments to the contribution of Pargesa to Power Financial's earnings in accordance with IAS 39:

(In millions of dollars)	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
Partial disposal of interest in adidas ^[1]	71	-	53	18	-
Impairment charges on Ontex ^[2]	(13)	(34)	(13)	-	(34)
Disposal of private equity funds ^[3]	-	21	-	-	-
Disposal of Burberry ^[4]	-	18	-	-	18
Reversal of unrealized (gains) losses on private equity funds ^[5]	(9)	(4)	(3)	(6)	(5)
Total	49	1	37	12	(21)

[1] During the first and second quarters of 2019, a portion of the investment in adidas was disposed of, resulting in gains of SF49 million and SF144 million, respectively. These gains were not reflected in Pargesa's earnings as the investment is classified as FVOCI. Power Financial's share of the realized gain was \$18 million in the first quarter and \$53 million in the second quarter.

[2] Under IFRS 9, Pargesa classifies the majority of its investments in public entities as FVOCI, and as a result impairment charges are not recognized in earnings. During the second quarter of 2018, the share price of Ontex decreased to €18.81 per share from a cost of €27.62 per share. Power Financial recognized its share of the impairment charge of \$34 million in the second quarter of 2018; During the remainder of 2018, the share price of Ontex decreased to €17.90 per share which resulted in further impairment charges; During the second quarter of 2019, the share price of Ontex decreased to €14.18 per share. An impairment charge of \$13 million was recognized by Power Financial, relating to its share of the impairment.

[3] During the first quarter of 2018, two investments held through private equity funds, classified as FVPL in accordance with IFRS 9, were disposed of, which resulted in realized gains of SF57 million. These realized gains have not been recognized in Pargesa's earnings as the investments were reclassified from available for sale to FVPL on transition to IFRS 9 on January 1, 2018. On transition, the related unrealized gains recorded in other comprehensive income were transferred permanently to retained earnings. Power Financial's share of the realized gain was \$21 million.

[4] During the second quarter of 2018, the investment in Burberry was disposed of, resulting in a gain of SF39 million. This gain was not reflected in Pargesa's earnings as it is classified as FVOCI. Power Financial's share of the realized gain was \$18 million.

[5] During the second quarter of 2019, Pargesa recognized SF9 million of net unrealized gains (SF14 million of net unrealized gains in the first quarter of 2019, SF12 million of net unrealized gains in the second quarter of 2018 and SF3 million of net unrealized losses in the first quarter of 2018) in earnings related to changes in fair value of its private equity funds. Power Financial does not recognize these gains as it continues to classify these private equity funds as available for sale in accordance with IAS 39.

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

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

RESULTS

Net earnings in the six-month period ended June 30, 2019 increased by SF12 million to SF225 million, compared with the corresponding period in 2018, mainly due to:

- An increase in dividends of SF31 million to SF203 million compared with SF172 million in the corresponding period in 2018. Dividends from its principal holdings increased by SF16 million, primarily due to the increase in dividends per share paid by certain portfolio companies as well as the monetization of a stock dividend received from LafargeHolcim. Other dividends include SF15 million related to a reimbursement to be received from the French tax authorities for withholdings taxes which had been applied to dividends received from Engie between 2013 and 2015;
- An increase in the contribution from private equity activities and other investment funds of SF10 million, mainly due to fair value increases of non-consolidated funds; and
- A decrease in net financial charges of SF8 million from the corresponding period in 2018 to SF5 million mainly due to foreign exchange gains at GBL and the net impact of fair value adjustments to derivative instruments.

Partially offset by:

- A decrease in the contribution from Imerys to adjusted net earnings, excluding other items of SF18 million as discussed below, from SF68 million to SF50 million at June 30, 2019, primarily due to a decrease in revenue from a market slowdown.

Net earnings in the three-month period ended June 30, 2019 decreased by SF18 million to SF134 million, compared with the corresponding period in 2018, mainly due to:

- A decrease in contribution from Imerys to adjusted net earnings, excluding other items of SF18 million as discussed below, from SF37 million to SF26 million at June 30, 2019 as explained above;
- A decrease in the contribution from private equity activities and other investment funds of SF5 million; and
- An increase in net financial charges of SF15 million to a net charge of SF22 million in the second quarter of 2019. The increase is mainly due to a decrease in income from trading and derivative activities of GBL;
- Partially offset by an increase in dividends of SF30 million to SF152 million, compared with SF122 million in the corresponding period in 2018. Dividends from its principal holdings increased by SF15 million and other dividends include a reimbursement for withholding taxes of SF15 million as explained above.

OTHER ITEMS

There were no significant Other items in the first quarter of 2019. In the second quarter, Other items of SF18 million consisted mainly of Pargesa's share of Imerys' charges relating to the implementation of a strategic restructuring plan and charges related to the temporary shutdown of a U.S. plant.

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

AVERAGE EXCHANGE RATES

The average exchange rates for the six-month and three-month periods ended June 30, 2019 and 2018 were as follows:

	Six months ended			Three months ended		
	June 30, 2019	June 30, 2018	Change %	June 30, 2019	June 30, 2018	Change %
Euro/SF	1.129	1.170	(3.5)	1.127	1.174	(4.0)
SF/CAD	1.334	1.322	0.9	1.334	1.311	1.8

The information above has been derived from Pargesa's second quarter of 2019 press release; see Part D of this MD&A for additional information on Pargesa's results.

CORPORATE OPERATIONS

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

	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
Income (loss) from investments	(4)	–	–	(4)	1
Operating and other expenses					
Operating expenses	(38)	(41)	(19)	(19)	(21)
Financing charges	(9)	(9)	(4)	(5)	(5)
Depreciation	(2)	(1)	(1)	(1)	–
Income taxes	(1)	(1)	(1)	–	(1)
	(50)	(52)	(25)	(25)	(27)
Corporate operations	(54)	(52)	(25)	(29)	(26)

OTHER ITEMS (NOT INCLUDED IN ADJUSTED NET EARNINGS)

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

	Six months ended		Three months ended		
	June 30, 2019	June 30, 2018	June 30, 2019	March 31, 2019	June 30, 2018
Lifeco					
Net charge on the sale, via reinsurance, of U.S. individual life insurance and annuity business	(134)	–	(134)	–	–
IGM					
Share of Lifeco's other items	(5)	–	(5)	–	–
Pargesa					
Imerys – Restructuring charges and other	(7)	–	(7)	–	–
	(146)	–	(146)	–	–

For additional information, refer to the Lifeco, IGM and Pargesa “Other items” sections above.

Financial Position

CONSOLIDATED BALANCE SHEETS (CONDENSED)

The condensed balance sheets of Lifeco and IGM, and Power Financial's non-consolidated balance sheet are presented below. This table reconciles the non-consolidated balance sheet, which is not in accordance with IFRS, with the condensed consolidated balance sheet of the Corporation at June 30, 2019.

	Power Financial	Lifeco	IGM	Consolidation adjustments and other ^[1]	Power Financial Consolidated balance sheets	
					June 30, 2019	December 31, 2018
Assets						
Cash and cash equivalents	1,074	3,835	601	(175)	5,335	5,624
Investments ^[2]	201	161,045	8,020	(232)	169,034	181,179
Investment – Lifeco	13,227	–	910	(14,137)	–	–
Investment – IGM	2,639	347	–	(2,986)	–	–
Investment – Parjointco	3,616	–	–	–	3,616	3,291
Investments – other jointly controlled corporations and associates	–	6	867	39	912	718
Assets held for sale	–	857	–	–	857	897
Funds held by ceding insurers	–	8,959	–	–	8,959	9,251
Reinsurance assets ^[2]	–	20,479	–	–	20,479	6,126
Other assets	128	11,641	1,429	39	13,237	11,948
Intangible assets	–	3,866	1,219	59	5,144	5,229
Goodwill	–	6,492	2,660	738	9,890	9,946
Investments on account of segregated fund policyholders	–	221,092	–	–	221,092	209,527
Investments on account of segregated fund policyholders held for sale	–	3,278	–	–	3,278	3,319
Total assets	20,885	441,897	15,706	(16,655)	461,833	447,055
Liabilities						
Insurance and investment contract liabilities	–	173,204	–	–	173,204	168,431
Liabilities held for sale	–	857	–	–	857	897
Obligations to securitization entities	–	–	7,337	–	7,337	7,370
Debentures and other debt instruments	250	6,331	2,100	(58)	8,623	8,492
Other liabilities	626	12,180	1,872	46	14,724	14,070
Insurance and investment contracts on account of segregated fund policyholders	–	221,092	–	–	221,092	209,527
Insurance and investment contracts on account of segregated fund policyholders held for sale	–	3,278	–	–	3,278	3,319
Total liabilities	876	416,942	11,309	(12)	429,115	412,106
Equity						
Perpetual preferred shares	2,830	2,714	–	(2,714)	2,830	2,830
Common shareholders' equity ^[3]	17,179	19,360	4,397	(23,757)	17,179	18,750
Non-controlling interests ^[4, 5]	–	2,881	–	9,828	12,709	13,369
Total equity	20,009	24,955	4,397	(16,643)	32,718	34,949
Total liabilities and equity	20,885	441,897	15,706	(16,655)	461,833	447,055

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

[2] As a result of Lifeco's indemnity reinsurance agreement with Protective Life, investments of \$15.6 billion were derecognized and reinsurance assets of \$14.9 billion were recognized.

[3] Opening retained earnings were decreased by \$80 million as a result of the adoption of IFRS 16, *Leases* and the application of IFRIC 23, *Uncertainty over Income Tax Treatments*; refer to the "Changes in Accounting Policies" section for more details.

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

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

Total assets of the Corporation increased to \$461.8 billion at June 30, 2019, compared with \$447.1 billion at December 31, 2018, primarily due to the impact of market movement and new business growth, partially offset by the impact of currency movement.

Assets held for sale of \$857 million and investments on account of segregated fund policyholders held for sale of \$3,278 million at June 30, 2019 (\$897 million and \$3,319 million, respectively, at December 31, 2018) relate to Lifeco's pending sale of a heritage block of policies to Scottish Friendly Assurance Society Limited (Scottish Friendly), which is expected to close in the second half of 2019. See Note 4 to the Corporation's Interim Consolidated Financial Statements.

Liabilities increased to \$429.1 billion at June 30, 2019, compared with \$412.1 billion at December 31, 2018, mainly due to the following, as disclosed by Lifeco:

- Insurance and investment contracts on account of segregated fund policyholders increased by \$11.6 billion, primarily due to the impact of net market value gains and investment income of \$18.5 billion, partially offset by the impact of currency movement of \$6.1 billion and net withdrawals of \$0.9 billion.
- Insurance and investment contract liabilities increased by \$4.8 billion, primarily due to fair value adjustments and the impact of new business, partially offset by the weakening of the British pound, euro and U.S. dollar against the Canadian dollar.
- Liabilities held for sale of \$857 million and insurance and investment contracts on account of segregated fund policyholders held for sale of \$3,278 million at June 30, 2019 (\$897 million and \$3,319 million, respectively, at December 31, 2018) relate to the pending sale of a heritage block of policies to Scottish Friendly, which is expected to close in the second half of 2019. See Note 4 to the Corporation's Interim Consolidated Financial Statements.

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

NON-CONSOLIDATED BALANCE SHEETS

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

	June 30, 2019	December 31, 2018
Assets		
Cash and cash equivalents ^[1]	1,074	1,025
Investments		
Lifeco	13,227	15,088
IGM	2,639	2,688
Parjointco	3,616	3,291
Other ^[2]	201	184
Other assets	128	115
Total assets	20,885	22,391
Liabilities		
Debentures	250	250
Other liabilities	626	561
Total liabilities	876	811
Equity		
Perpetual preferred shares	2,830	2,830
Common shareholders' equity	17,179	18,750
Total equity	20,009	21,580
Total liabilities and equity	20,885	22,391

[1] Cash equivalents include \$278 million (\$293 million at December 31, 2018) of fixed income securities with maturities of more than three months. In accordance with IFRS, these are classified as investments in the Consolidated Financial Statements.

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

Cash and cash equivalents

Cash and cash equivalents held by Power Financial amounted to \$1,074 million at June 30, 2019, compared with \$1,025 million at the end of December 2018. The second quarter dividends declared by the Corporation and paid on August 1, 2019 are included in other liabilities and amounted to \$337 million. Dividends declared in the second quarter by IGM and received by the Corporation on July 31, 2019 are included in other assets and amounted to \$83 million (see "Non-consolidated Statements of Cash Flows" below for details).

Investments in Lifeco, IGM and Parjointco

The carrying value of Power Financial's investments in Lifeco, IGM and Parjointco, accounted for using the equity method, decreased to \$19,482 million at June 30, 2019, compared with \$21,067 million at December 31, 2018:

	Lifeco	IGM	Parjointco	Total
Carrying value, at the beginning of the year	15,088	2,688	3,291	21,067
Change in accounting policy ^[1]	(74)	(6)	–	(80)
Restated carrying value, at the beginning of the year	15,014	2,682	3,291	20,987
Participation in the Lifeco SIB	(1,652)	–	–	(1,652)
Share of adjusted net earnings	884	225	139	1,248
Share of other items	(134)	(5)	(7)	(146)
Share of other comprehensive income (loss)	(486)	(70)	267	(289)
Dividends	(533)	(166)	(80)	(779)
Other ^[2]	134	(27)	6	113
Carrying value, at June 30, 2019	13,227	2,639	3,616	19,482

[1] Refer to the "Changes in Accounting Policies" section for more details.

[2] Mainly related to a dilution gain as a result of the Lifeco SIB, and the effect of the share repurchase program as part of a normal course issuer bid by IGM.

EQUITY**Preferred shares**

Preferred shares of the Corporation consist of 11 series of Non-Cumulative Fixed Rate First Preferred Shares, two series of Non-Cumulative 5-Year Rate Reset First Preferred Shares, and two series of Floating Rate First Preferred Shares, one of which is Non-Cumulative, with an aggregate stated capital of \$2,830 million at June 30, 2019 (same as at December 31, 2018). All series are perpetual preferred shares and are redeemable in whole or in part solely at the Corporation's option from specified dates.

The terms and conditions of the outstanding First Preferred Shares are described in Note 18 to the Corporation's 2018 Consolidated Financial Statements.

Common shareholders' equity

Common shareholders' equity was \$17,179 million at June 30, 2019, compared with \$18,750 million at December 31, 2018:

Six months ended June 30	2019	2018
Common shareholders' equity, at the beginning of the year	18,750	17,323
Change in accounting policy ^[1]	(80)	-
Restated common shareholders' equity, at the beginning of the year	18,670	17,323
Changes in retained earnings		
Net earnings before dividends on perpetual preferred shares	1,048	1,313
Dividends declared	(697)	(687)
Repurchase of common shares under PFC SIB	(1,650)	-
Effects of changes in capital and ownership of subsidiaries, and other	98	(49)
	(1,201)	577
Changes in reserves		
Other comprehensive income (loss)		
Foreign currency translation adjustments	(460)	283
Investment revaluation and cash flow hedges	89	(63)
Actuarial gains (losses) on defined benefit plans	(185)	110
Share of Pargesa and other associates	248	211
Share-based compensation, including the effect of subsidiaries	18	(8)
	(290)	533
Issuance of common shares (nil in 2019 and 125,000 shares in 2018) under the Corporation's Employee Stock Option Plan	-	4
Common shareholders' equity, at June 30	17,179	18,437

[1] Refer to the "Changes in Accounting Policies" section for more details.

The book value per common share of the Corporation was \$25.87 at June 30, 2019, compared with \$26.26 at the end of 2018.

Outstanding number of common shares

At the date of this MD&A, there were 664,096,506 common shares of the Corporation outstanding, compared with 714,096,479 at December 31, 2018. At the date of this MD&A, options were outstanding to purchase up to an aggregate of 13,079,888 common shares of the Corporation under the Corporation's Employee Stock Option Plan.

Substantial issuer bids

On April 17, 2019, Lifeco completed a substantial issuer bid and purchased for cancellation 59,700,974 of its common shares at a purchase price of \$33.50 per common share. The Corporation participated in the Lifeco SIB and as a result, the Corporation's equity interest decreased from 67.8% to 66.8% (excluding IGM's 4.0% interest). The decrease in ownership in Lifeco resulted in a dilution gain of \$108 million recorded in retained earnings and other comprehensive income reserve with a corresponding decrease in non-controlling interests.

As part of the Corporation's substantial issuer bid, Power Corporation, the parent company of the Corporation, participated in the PFC SIB. Power Corporation effected its tender offer through a Qualifying Holdco Alternative (as described in the Offer), which the Corporation also offered to other shareholders, pursuant to which the Corporation issued and subsequently cancelled 467,839,296 common shares. This resulted in a net increase in stated capital of \$556 million and a corresponding decrease in retained earnings, with no impact to equity.

On April 17, 2019, the Corporation completed its substantial issuer bid and purchased for cancellation 49,999,973 of its common shares at a purchase price of \$33.00 per common share for an aggregate amount of \$1.65 billion. The excess paid under the PFC SIB over the stated capital of \$1.55 billion was recognized as a reduction to retained earnings. Transaction costs incurred in connection with the PFC SIB of \$4 million were recorded in retained earnings.

Net Asset Value

Net asset value represents management's estimate of the fair value of the common shareholders' equity of the Corporation. Net asset value is the fair value of the assets of Power Financial's non-consolidated balance sheet less its net debt and preferred shares. In determining the fair value of assets, investments in subsidiaries and associates are adjusted to fair value as follows:

- Investments in publicly traded companies are valued at their market value, measured as the closing share price on the reporting date;
- Investments in private entities are valued at fair value based on management's estimate using consistently applied valuation models either based on a valuation multiple or discounted cash flows. Certain valuations are prepared by external valuers or subject to review by external valuers. Market-comparable transactions are generally used to corroborate the estimated fair value. The value of investments in private entities is presented net of any management incentives;
- Investments in investment funds are valued at the fair value reported by the fund which is net of carried interest or other incentives.

The presentation of the investments in subsidiaries and associates at fair value is not in accordance with IFRS; net asset value is a non-IFRS financial measure.

The Corporation's net asset value was \$24.4 billion at June 30, 2019, compared with \$23.5 billion at December 31, 2018, representing an increase of \$0.9 billion or 3.7%.

	June 30, 2019			December 31, 2018		
	Non-consolidated balance sheet	Fair value adjustment	Net asset value	Non-consolidated balance sheet	Fair value adjustment	Net asset value
Assets						
Cash and cash equivalents	1,074	-	1,074	1,025	-	1,025
Investments						
Lifeco ^[1]	13,227	5,474	18,701	15,088	3,780	18,868
IGM	2,639	2,892	5,531	2,688	1,902	4,590
Parjointco	3,616	(1,242)	2,374	3,291	(983)	2,308
Other ^[2]	201	112	313	184	90	274
Other assets ^[3]	128	-	128	115	-	115
Total assets	20,885	7,236	28,121	22,391	4,789	27,180
Liabilities and preferred shares						
Debentures	250	-	250	250	-	250
Other liabilities ^[4]	626	-	626	561	-	561
Perpetual preferred shares	2,830	-	2,830	2,830	-	2,830
Total liabilities and preferred shares	3,706	-	3,706	3,641	-	3,641
Net value						
Common shareholders' equity / Net asset value	17,179	7,236	24,415	18,750	4,789	23,539
Per share	25.87		36.76	26.26		32.96

[1] During the second quarter of 2019, as a result of Lifeco's SIB, the Corporation's equity interest in Lifeco decreased from 67.8% to 66.8%.

[2] Fair value adjustment is related to Power Financial's investments in Portag3, Portag3 II and Wealthsimple.

[3] Includes \$83 million of dividends declared in the second quarter by IGM and received by the Corporation on July 31, 2019.

[4] Includes \$337 million of dividends declared in the second quarter by the Corporation and paid on August 1, 2019.

Investments measured at market value and cash represent 98.4% of the total asset value at June 30, 2019 (98.6% at December 31, 2018).

Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)

The condensed cash flows of Lifeco and IGM, and Power Financial's non-consolidated cash flows, are presented below. This table reconciles the non-consolidated statement of cash flows, which is not in accordance with IFRS, to the condensed consolidated statement of cash flows of the Corporation for the six-month period ended June 30, 2019.

	Power Financial	Lifeco	IGM	Consolidation adjustments and other	Power Financial Consolidated	
Six months ended June 30					2019	2018
Cash flows from:						
Operating activities	781	3,548	286	(787)	3,828	2,628
Financing activities	(2,359)	(2,799)	(349)	2,526	(2,981)	(1,045)
Investing activities	1,627	(938)	14	(1,695)	(992)	(1,607)
Effect of changes in exchange rates on cash and cash equivalents	–	(144)	–	–	(144)	75
Increase (decrease) in cash and cash equivalents	49	(333)	(49)	44	(289)	51
Cash and cash equivalents, at the beginning of the year	1,025	4,168	650	(219)	5,624	5,321
Cash and cash equivalents, at June 30	1,074	3,835	601	(175)	5,335	5,372

Consolidated cash and cash equivalents decreased by \$289 million in the six-month period ended June 30, 2019, compared with an increase of \$51 million in the corresponding period in 2018.

Operating activities produced a net inflow of \$3,828 million in the six-month period ended June 30, 2019, compared with a net inflow of \$2,628 million in the corresponding period in 2018.

Cash flows from financing activities, which include the repurchase of common shares pursuant to the Lifeco SIB and the PFC SIB, dividends paid on the common and preferred shares of the Corporation, and dividends paid by subsidiaries to non-controlling interests, represented a net outflow of \$2,981 million in the six-month period ended June 30, 2019, compared with a net outflow of \$1,045 million in the corresponding period in 2018.

Cash flows from investing activities, resulted in a net outflow of \$992 million in the six-month period ended June 30, 2019, compared with a net outflow of \$1,607 million in the corresponding period in 2018.

The Corporation decreased its level of fixed income securities with maturities of more than three months, resulting in a net inflow of \$15 million in the six-month period ended June 30, 2019, compared with a net outflow of \$14 million in the corresponding period in 2018.

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

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

Six months ended June 30	2019	2018
Operating activities		
Dividends		
Lifeco	533	521
IGM	166	166
Pargesa	80	75
	779	762
Corporate operations, net of non-cash items	2	(14)
	781	748
Financing activities		
Dividends paid on perpetual preferred shares	(69)	(69)
Dividends paid on common shares	(635)	(604)
Issuance of common shares	-	4
Repurchase of common shares under PFC SIB	(1,650)	-
Share repurchase expenses and other	(5)	-
	(2,359)	(669)
Investing activities		
Proceeds from tender of Lifeco shares under Lifeco SIB	1,652	-
Investments in Portag3 Funds and Wealthsimple	(25)	(36)
	1,627	(36)
Increase in cash and cash equivalents	49	43
Cash and cash equivalents, at the beginning of the year	1,025	1,054
Cash and cash equivalents, at June 30	1,074	1,097

On a non-consolidated basis, cash and cash equivalents increased by \$49 million in the six-month period ended June 30, 2019, compared with an increase of \$43 million in the corresponding period in 2018.

Operating activities resulted in a net inflow of \$781 million in the six-month period ended June 30, 2019, compared with a net inflow of \$748 million in the corresponding period in 2018.

- Dividends paid by Lifeco on its common shares during the six-month period ended June 30, 2019 were \$0.8260 per share, compared with \$0.7780 in the corresponding period in 2018. In the six-month period ended June 30, 2019, the Corporation received dividends from Lifeco of \$533 million, compared with \$521 million in the corresponding period in 2018.
- Dividends paid by IGM on its common shares during the six-month period ended June 30, 2019 were \$1.125 per share, the same as in the corresponding period in 2018. In the six-month period ended June 30, 2019, the Corporation received dividends from IGM of \$166 million, the same as in the corresponding period in 2018.
- Pargesa declares and pays an annual dividend in the second quarter. The dividend paid by Pargesa to Parjointco in 2019 amounted to SF2.56 per bearer share, compared with SF2.50 in 2018. The Corporation received dividends of \$80 million (SF60 million) from Parjointco in 2019, compared with \$75 million (SF59 million) in 2018.

The Corporation's financing activities during the six-month period ended June 30, 2019 were a net outflow of \$2,359 million, compared with a net outflow of \$669 million in the corresponding period in 2018, and included:

- Dividends paid on preferred and common shares by the Corporation of \$704 million, compared with \$673 million in the corresponding period in 2018. In the six-month period ended June 30, 2019, dividends paid on the Corporation's common shares were \$0.8885 per share, compared with \$0.8455 per share in the corresponding period in 2018.
- No common shares issued for employee stock options exercised in the period, compared with common shares issued of \$4 million in the corresponding period in 2018.
- Repurchase of common shares pursuant to the PFC SIB of \$1,650 million in the period, compared with no repurchase in the corresponding period in 2018.

The Corporation's investing activities during the six-month period ended June 30, 2019 were a net inflow of \$1,627 million, primarily due to proceeds received from participation in the Lifeco SIB, compared with a net outflow of \$36 million in the corresponding period in 2018.

Capital Management

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

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

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

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

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

On April 17, 2019, the Corporation completed the PFC SIB and repurchased for cancellation \$1.65 billion of its common shares. The PFC SIB facilitated the repurchase of common shares at attractive market valuations and returned capital to shareholders while maintaining Power Financial's strong capital position to fund future growth opportunities.

The Corporation's consolidated capitalization includes the debentures, preferred shares and other debt instruments issued by its consolidated subsidiaries. Debentures and other debt instruments issued by Lifeco and IGM are non-recourse to the Corporation. The Corporation does not guarantee debt issued by its subsidiaries. Perpetual preferred shares and total equity accounted for 79% of consolidated capitalization at June 30, 2019.

	June 30, 2019	December 31, 2018
Debentures and other debt instruments		
Power Financial	250	250
Lifeco	6,331	6,459
IGM	2,100	1,850
Other subsidiaries and consolidation adjustments	(58)	(67)
	8,373	8,242
	8,623	8,492
Preferred shares		
Power Financial	2,830	2,830
Lifeco	2,714	2,714
IGM	-	150
	2,714	2,864
	5,544	5,694
Equity		
Common shareholders' equity	17,179	18,750
Non-controlling interests ^[1]	9,995	10,505
	27,174	29,255
	41,341	43,441

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

Power Financial

- The Corporation filed a short-form base shelf prospectus dated November 16, 2018, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of \$3 billion of First Preferred Shares, common shares, subscription receipts and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis.

IGM

- On March 20, 2019, IGM issued \$250 million of 4.206% debentures maturing March 21, 2050. Part of the proceeds were used by IGM to fund the redemption of its \$150 million issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B on April 30, 2019.

The Corporation itself is not subject to externally imposed regulatory capital requirements; however, Lifeco and certain of its main subsidiaries, IGM's subsidiaries and certain of the Corporation's other subsidiaries are subject to regulatory capital requirements. Parts B and C of this MD&A further describe the capital management activities of Lifeco and IGM, respectively. See Note 21 to the Corporation's 2018 Financial Statements for additional information.

RATINGS

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

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

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

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

Risk Management

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

RISK OVERSIGHT APPROACH

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

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

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

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, which investors should carefully consider before investing in securities of the Corporation. The 2018 Annual MD&A reviews certain risks that could impact the financial condition and financial performance, and the value of the equity of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

During the six-month period ended June 30, 2019, there were no changes to the Corporation's risk oversight approach, and the identification and management of the specific risks described in the 2018 Annual MD&A.

Financial Instruments and Other Instruments

FAIR VALUE MEASUREMENT

At June 30, 2019, there had been no material changes to the carrying amounts and fair value of the Corporation and its subsidiaries' assets and liabilities recorded at fair value from December 31, 2018. See Note 18 to the Corporation's Interim Consolidated Financial Statements for additional disclosure of the Corporation's fair value measurement.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

There were no major changes to the Corporation and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the six-month period ended June 30, 2019. The following table provides a summary of the Corporation and its subsidiaries' derivatives portfolio:

	June 30, 2019			December 31, 2018		
	Notional	Maximum credit risk	Total fair value	Notional	Maximum credit risk	Total fair value
Power Financial	23	1	1	20	-	(2)
Lifeco	20,274	655	(531)	19,614	417	(1,145)
IGM	2,942	19	(7)	2,883	16	(13)
Other subsidiaries	17	-	-	8	-	-
	23,233	674	(538)	22,505	433	(1,158)
	23,256	675	(537)	22,525	433	(1,160)

During the six-month period ended June 30, 2019, there was an increase of \$0.7 billion in the notional amount of derivatives outstanding, primarily due to an increase in forward-settling mortgage-backed security transactions ("to-be-announced securities") and regular hedging activities. The Corporation and its subsidiaries' exposure to derivative counterparty risk (which represents the market value of instruments in a gain position) increased to \$675 million at June 30, 2019 from \$433 million at December 31, 2018. The increase was primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

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

See Note 26 to the Corporation's 2018 Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

GUARANTEES

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

LETTERS OF CREDIT

In the normal course of its reinsurance business, Lifeco provides letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco. Lifeco may be required to seek collateral alternatives if it is unable to renew existing letters of credit on maturity. See also Part B of this MD&A and Note 32 to the Corporation's 2018 Consolidated Financial Statements.

Contingent Liabilities

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation. See also Parts B and C of this MD&A and Note 31 to the Corporation's 2018 Consolidated Financial Statements.

Commitments and Contractual Obligations

At June 30, 2019, there have been no material changes in the contractual obligations of the Corporation and its subsidiaries from those reported in the 2018 Annual MD&A.

Income Taxes (Non-Consolidated Basis)

The Corporation had, at June 30, 2019, non-capital losses of \$265 million available to reduce future taxable income (including capital gains). These losses expire during the years 2028 to 2039. In addition, the Corporation has capital losses of \$84 million that can be used indefinitely to reduce future capital gains.

See also "Transactions with Related Parties" below.

Transactions with Related Parties

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

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

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

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

In October 2017, IGM obtained advance tax rulings which permitted tax loss consolidation transactions with a subsidiary of Power Corporation, whereby shares of a subsidiary that has generated tax losses may be acquired by IGM in each year up to and including 2020. The acquisitions are expected to close in the fourth quarter of each year. IGM recognizes the benefit of the tax losses realized throughout the year the shares in the subsidiary are acquired.

On April 17, 2019, Power Financial participated in the Lifeco SIB and Power Corporation participated in the PFC SIB. These transactions were at market terms and conditions. Refer to the section "Equity" for more details.

See Note 30 to the Corporation's 2018 Consolidated Financial Statements for additional information.

Summary of Critical Accounting Estimates and Judgments

In the preparation of the financial statements, management of the Corporation and the managements of its subsidiaries – Lifeco and IGM – are required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings, comprehensive income and related disclosures. Key sources of estimation uncertainty and areas where significant judgments are made by the management of the Corporation and the managements of its subsidiaries include: the entities to be consolidated or accounted for using the equity method, insurance and investment contract liabilities, fair value measurements, investment impairment, goodwill and intangible assets, income taxes and employee future benefits. These are described in the Corporation's 2018 Annual MD&A and in the notes to the Corporation's 2018 Consolidated Financial Statements. There were no significant changes in the Corporation's critical accounting estimates and judgments in the second quarter of 2019.

Changes in Accounting Policies

There were no changes to the Corporation's accounting policies from those reported at December 31, 2018, except as described below.

ADOPTION OF IFRS 16 – LEASES (IFRS 16)

Effective January 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, *Leases* (IAS 17) and related interpretations. The standard prescribes new guidance for identifying a lease as well as the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires a lessee to recognize a right-of-use asset representing its right to use the leased asset and a corresponding lease liability representing its obligation to make lease payments for all leases. The distinction between operating and financing leases no longer applies, however an optional exemption exists for short-term and low-value leases.

Impact of transition to IFRS 16

The Corporation has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 remains as previously reported under IAS 17 and related interpretations.

On initial application, the Corporation elected to measure right-of-use assets on a lease-by-lease basis at either i) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized on the balance sheets immediately before the date of initial application; or ii) at its carrying amount, as if IFRS 16 had been applied since the commencement date but discounted using the Corporation's incremental borrowing rate at January 1, 2019. When measuring lease liabilities, the Corporation and its subsidiaries discounted lease payments using their respective incremental borrowing rates at January 1, 2019. The weighted-average incremental borrowing rate was 3.95% at January 1, 2019.

On transition, the Corporation and its subsidiaries elected to apply practical expedients including: i) to not recognize right-of-use assets and lease liabilities for leases for which the remaining lease terms end within twelve months of the date of transition; and ii) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

Impact on the balance sheet at January 1, 2019:

	December 31, 2018 (as previously reported)	Impact of IFRS 16	January 1, 2019 (restated)
Assets			
Investment properties	5,218	29	5,247
Owner-occupied properties and capital assets	1,331	560	1,891
		589	
Liabilities and shareholders' equity			
Other liabilities ^[1]	10,960	597	11,557
Deferred tax liabilities	1,517	(2)	1,515
Retained earnings	15,967	(3)	15,964
Non-controlling interests	13,369	(3)	13,366
		589	

[1] Accrued lease payments of \$64 million within other liabilities on the balance sheets at December 31, 2018 were reclassified to decrease right-of-use assets.

The application of IFRS 16 did not have a material impact on the statement of earnings or the statement of cash flows for the six-month period ended June 30, 2019, except for the classification of lease payments as financing activities instead of operating activities. The adoption of IFRS 16 did not have an impact on net cash flows.

ADOPTION OF IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS (IFRIC 23)

Effective January 1, 2019, the Corporation adopted IFRIC 23 which clarifies the application of the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under IFRIC 23, a provision for tax uncertainties which meets the probable threshold for recognition is measured based on the amount most likely to occur. The provision for tax uncertainties is classified as current or deferred based on how a disallowance of the underlying uncertain tax treatment would impact the tax provision accrual as of the balance sheet date. The application of the interpretation of the standard resulted in a decrease of \$109 million to Lifeco's retained earnings. The Corporation's share of this impact is \$77 million.

Future Accounting Changes

The Corporation and its subsidiaries continuously monitor the potential changes proposed by the International Accounting Standards Board (IASB) and analyze the effect that changes in the standards may have on their consolidated financial statements when they become effective.

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

There were no other significant changes to the future accounting policies that could impact the Corporation and its subsidiaries, in addition to the disclosure in the 2018 Annual MD&A and the 2018 Consolidated Financial Statements.

Internal Control over Financial Reporting

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

There have been no changes in the Corporation's internal control over financial reporting during the three-month period ended June 30, 2019 which have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Summary of Quarterly Results

		2019			2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues ^[1]	3,511	17,648	12,438	12,787	11,360	10,440	13,646	10,931	11,809	13,601
Net earnings (attributable to common shareholders)	443	536	478	523	658	586	225	463	545	484
per share - basic ^[2]	0.66	0.75	0.67	0.74	0.92	0.82	0.32	0.65	0.76	0.68
per share - diluted ^[2]	0.66	0.75	0.67	0.73	0.92	0.82	0.31	0.65	0.76	0.68
Adjusted net earnings (attributable to common shareholders) ^[3]	589	536	460	578	658	586	547	465	622	501
per share - basic ^[2, 3]	0.88	0.75	0.65	0.81	0.92	0.82	0.77	0.65	0.87	0.70
Other items ^[3, 4]	(146)	-	18	(55)	-	-	(322)	(2)	(77)	(17)
per share - basic ^[3]	(0.22)	-	0.02	(0.07)	-	-	(0.45)	-	(0.11)	(0.02)

[1] The decrease in revenues in the second quarter of 2019 is due to the impact of Lifeco's sale, via indemnity reinsurance, of its U.S. individual life insurance and annuity business to Protective Life.

[2] In the second quarter of 2019, pursuant to the PFC SIB, Power Financial repurchased approximately 7% of its issued and outstanding common shares.

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

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

		2019			2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Lifeco										
Net charge on the sale, via reinsurance, of a U.S. individual life insurance and annuity business	(134)	-	-	-	-	-	-	-	-	-
Restructuring charges	-	-	-	(38)	-	-	(3)	-	(84)	(20)
Impact of U.S. tax reform	-	-	-	-	-	-	(146)	-	-	-
Net charge on sale of an equity investment	-	-	-	-	-	-	(83)	-	-	-
Share of IGM's other items	-	-	-	(1)	-	-	(4)	-	-	-
IGM										
Restructuring and other charges	-	-	-	(10)	-	-	(78)	-	(10)	-
Premium paid on early redemption of debentures	-	-	-	(5)	-	-	-	-	-	-
Pension plan	-	-	-	-	-	-	-	-	22	-
Share of Lifeco's other items	(5)	-	-	(1)	-	-	(8)	-	(4)	-
Pargesa										
Imerys - Disposal of roofing activity	-	-	86	-	-	-	-	-	-	-
Imerys - Impairments, restructuring charges and other	(7)	-	(68)	-	-	-	-	-	-	-
Other (charge) income	-	-	-	-	-	-	-	(2)	(1)	3
	(146)	-	18	(55)	-	-	(322)	(2)	(77)	(17)

GREAT-WEST LIFECO INC.

PART B

MANAGEMENT'S DISCUSSION AND ANALYSIS

PAGE B 2

FINANCIAL STATEMENTS AND NOTES

PAGE B 46

Please note that the bottom of each page in Part B contains two different page numbers. A page number with the prefix "B" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by Great-West Lifeco Inc.

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

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

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

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

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

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The condensed consolidated interim unaudited financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and are presented in millions of Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2019. Also refer to the 2018 Annual MD&A and audited consolidated financial statements in the Company's 2018 Annual Report.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A may contain forward-looking information. Forward-looking information includes statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and other similar expressions or negative versions thereof. These statements include, without limitation, statements about the Company's operations, business, financial condition, expected financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future actions by the Company, including statements made with respect to the expected benefits of acquisitions and divestitures, expected capital management activities and use of capital and expected cost reductions and savings. Forward-looking statements are based on expectations, forecasts, estimates, predictions, projections and conclusions about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and the reader is cautioned that actual events and results could differ materially from those expressed or implied by forward-looking statements. Material factors and assumptions that were applied in formulating the forward-looking information contained herein include the assumption that the business and economic conditions affecting the Company's operations will continue substantially in their current state, including, without limitation, with respect to customer behaviour, the Company's reputation, market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, reinsurance arrangements, liquidity requirements, capital requirements, credit ratings, taxes, inflation, interest and foreign exchange rates, investment values, hedging activities, global equity and capital markets, business competition and other general economic, political and market factors in North America and internationally. Many of these assumptions are based on factors and events that are not within the control of the Company and there is no assurance that they will prove to be correct. Other important factors and assumptions that could cause actual results to differ materially from those contained in forward-looking statements include customer responses to new products, impairments of goodwill and other intangible assets, the Company's ability to execute strategic plans and changes to strategic plans, technological changes, breaches or failure of information systems and security (including cyber attacks), payments required under investment products, changes in local and international laws and regulations, changes in accounting policies and the effect of applying future accounting policy changes, unexpected judicial or regulatory proceedings, catastrophic events, continuity and availability of personnel and third party service providers, the Company's ability to complete strategic transactions and integrate acquisitions and unplanned material changes to the Company's facilities, customer and employee relations or credit arrangements. The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in other filings with securities regulators, including factors set out in the Company's 2018 Annual MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates", which, along with other filings, is available for review at www.sedar.com. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking information. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking information whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES

This MD&A contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "operating earnings", "adjusted net earnings", "adjusted net earnings (US\$)", "adjusted net earnings per common share", "adjusted return on equity", "core net earnings", "constant currency basis", "impact of currency movement", "premiums and deposits", "pre-tax operating margin", "return on equity - adjusted net earnings", "sales", "assets under management" and "assets under administration". Non-IFRS financial measures are used to provide management and investors with additional measures of performance to help assess results where no comparable IFRS measure exists. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and are not directly comparable to similar measures used by other companies. Refer to the appropriate reconciliations of these non-IFRS financial measures to measures prescribed by IFRS where applicable.

CONSOLIDATED OPERATING RESULTS

Selected consolidated financial information

(in Canadian \$ millions, except for per share amounts)

	As at or for the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Earnings					
Net earnings - common shareholders	\$ 459	\$ 657	\$ 831	\$ 1,116	\$ 1,562
Adjustments ⁽¹⁾⁽⁸⁾	199	—	—	199	—
Adjusted net earnings - common shareholders ⁽¹⁾	658	657	831	1,315	1,562
Per common share					
Basic earnings	0.489	0.665	0.839	1.159	1.579
Adjusted basic earnings, excluding adjustments ⁽¹⁾	0.701	0.665	0.839	1.365	1.579
Dividends paid	0.413	0.413	0.389	0.826	0.778
Book value	20.84	22.07	21.22		
Return on common shareholders' equity⁽²⁾					
Net earnings	12.0%	13.5%	12.5%		
Adjusted net earnings ⁽³⁾	13.2%	13.7%	14.2%		
Premiums and deposits					
Net premium income (Life insurance, guaranteed annuities and insured health products) ⁽⁸⁾	\$ (3,887)	\$ 9,595	\$ 7,905	\$ 5,708	\$ 16,079
Policyholder deposits (Segregated funds):					
Individual products	3,723	3,632	4,142	7,355	8,130
Group products	1,732	2,094	1,954	3,826	4,376
Premiums and deposits reported in the financial statements	1,568	15,321	14,001	16,889	28,585
Self-funded premium equivalents (Administrative services only contracts) ⁽⁴⁾	830	811	774	1,641	1,522
Proprietary mutual funds and institutional deposits ⁽⁴⁾	17,993	24,713	19,196	42,706	36,990
Add back: U.S. Individual Insurance & Annuity Business - initial reinsurance ceded premiums ⁽⁸⁾	13,889	—	—	13,889	—
Total premiums and deposits⁽⁴⁾	34,280	40,845	33,971	75,125	67,097
Fee and other income⁽⁸⁾	2,591	1,479	1,483	4,070	2,916
Net policyholder benefits, dividends and experience refunds	8,957	8,987	7,588	17,944	15,417
Total assets per financial statements	\$ 441,897	\$ 442,492	\$ 430,695		
Proprietary mutual funds and institutional net assets ⁽⁵⁾	305,252	304,230	294,890		
Total assets under management⁽⁵⁾	747,149	746,722	725,585		
Other assets under administration ⁽⁶⁾	820,808	804,202	697,680		
Total assets under administration	\$1,567,957	\$1,550,924	\$1,423,265		
Total equity	\$ 24,955	\$ 27,400	\$ 26,620		
The Great-West Life Assurance Company consolidated Life Insurance Capital Adequacy Test Ratio⁽⁷⁾	136%	140%	133%		

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

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

- (3) Return on common shareholders' equity - adjusted net earnings (a non-IFRS measure) is adjusted for the impact of the net charge on the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business, U.S. tax reform, the net charge on the sale of an equity investment and restructuring costs. For further details on this measure, refer to the "Capital Allocation Methodology" section.
- (4) In addition to premiums and deposits reported in the financial statements, the Company includes premium equivalents on self-funded group insurance administrative services only (ASO) contracts and deposits on proprietary mutual funds and institutional accounts. In addition, the Company excludes ceded premiums relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business. Total premiums and deposits (a non-IFRS financial measure) provides useful information as it is an indicator of top-line growth.
- (5) Total assets under management (a non-IFRS financial measure) provides an indicator of the size and volume of the overall business of the Company. Services provided in respect of assets under management include the selection of investments, the provision of investment advice and discretionary portfolio management on behalf of clients. This includes internally and externally managed funds where the Company has oversight of the investment policies.
- (6) Other assets under administration (a non-IFRS financial measure) includes assets where the Company only provides administration services for which the Company earns fee and other income. These assets are beneficially owned by clients and the Company does not direct the investing activities. Services provided relating to assets under administration includes recordkeeping, safekeeping, collecting investment income, settling of transactions or other administrative services. Administrative services are an important aspect of the overall business of the Company and should be considered when comparing volume, size and trends.
- (7) The Life Insurance Capital Adequacy Test (LICAT) ratio is based on the consolidated results of The Great-West Life Assurance Company, Lifeco's major Canadian operating subsidiary. Refer to the "Capital Management and Adequacy" section for additional details.
- (8) Following the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business to Protective Life on June 1, 2019, the Company recorded a net loss of \$199 million (US\$148 million) related to the transaction. For the three and six months ended June 30, 2019, the impacts to the Consolidated Statements of Earnings are outlined in the table below:

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

NET EARNINGS

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

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

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

Net earnings - common shareholders

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

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

⁽²⁾ U.S. Corporate net earnings for the second quarter of 2018 included a net positive impact of \$60 million arising from refinancing in the U.S. segment completed in the second quarter of 2018.

⁽³⁾ Adjustments to net earnings were a net charge of \$199 million (US\$148 million) relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business and are included in the Reinsured Insurance & Annuity Business unit of the U.S. segment.

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

MARKET IMPACTS

Interest Rate Environment

Interest rates in countries where the Company operates mostly decreased during the quarter. The net change in interest rates did not impact the range of interest rate scenarios tested through the valuation process. The net change in interest rates did not have a material impact on net earnings or on the LICAT ratio.

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

For a further description of the Company's sensitivity to interest rate fluctuations, refer to "Financial Instruments Risk Management", note 7 to the Company's condensed consolidated interim unaudited financial statements for the period ended June 30, 2019.

Equity Markets

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

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

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

Foreign Currency

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

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

From March 31, 2019 to June 30, 2019, the exchange rates at the end of the reporting period used to translate U.S. dollar, euro and British pound assets and liabilities to the Canadian dollar decreased. The movements in end-of-period exchange rates resulted in unrealized foreign exchange losses from the translation of foreign operations, including related hedging activities, of \$457 million in-quarter (\$619 million net unrealized loss year-to-date) recorded in other comprehensive income.

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

ACTUARIAL ASSUMPTION CHANGES

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

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

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

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

ACTUARIAL STANDARDS UPDATE

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

PREMIUMS AND DEPOSITS AND SALES

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

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

Premiums and deposits

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Canada					
Individual Customer	\$ 2,511	\$ 2,508	\$ 2,564	\$ 5,019	\$ 5,180
Group Customer	3,909	4,136	3,774	8,045	8,211
	6,420	6,644	6,338	13,064	13,391
United States					
Financial Services ⁽¹⁾	2,790	2,772	2,563	5,562	5,147
Asset Management	12,406	14,550	15,002	26,956	28,237
Reinsured Insurance & Annuity Business ⁽¹⁾	293	514	619	807	1,145
	15,489	17,836	18,184	33,325	34,529
Europe					
Insurance & Annuities	7,936	11,911	6,240	19,847	12,652
Reinsurance	4,435	4,454	3,209	8,889	6,525
	12,371	16,365	9,449	28,736	19,177
Total premiums and deposits	\$ 34,280	\$ 40,845	\$ 33,971	\$ 75,125	\$ 67,097

Sales

	For the three months ended			For the six months ended	
	June 30 2019	March 31 2019	June 30 2018	June 30 2019	June 30 2018
Canada	\$ 2,940	\$ 3,180	\$ 3,040	\$ 6,120	\$ 6,862
United States ⁽²⁾	24,213	75,848	24,508	100,061	49,584
Europe - Insurance & Annuities	7,131	11,181	5,535	18,312	11,274
Total sales	\$ 34,284	\$ 90,209	\$ 33,083	\$ 124,493	\$ 67,720

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

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

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

NET INVESTMENT INCOME

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

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

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

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

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

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

Credit Markets

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

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

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

FEE AND OTHER INCOME

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

Fee and other income

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

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

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

NET POLICYHOLDER BENEFITS, DIVIDENDS AND EXPERIENCE REFUNDS

Net policyholder benefits, dividends and experience refunds

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

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

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

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

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

INCOME TAXES

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

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

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

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

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

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

CONSOLIDATED FINANCIAL POSITION

ASSETS

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

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

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

INVESTED ASSETS

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

Bond portfolio – It is the Company's policy to acquire primarily investment grade bonds subject to prudent and well-defined investment policies. Modest investments in below investment grade rated securities may occur while not changing the overall discipline and conservative approach to the investment strategy. The total bond portfolio, including short-term investments, was \$113.6 billion or 69% of invested assets at June 30, 2019 and \$124.9 billion or 71% at December 31, 2018. The decrease in the bond portfolio was primarily related to assets transferred to support the indemnity reinsurance agreement with Protective Life. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 81% rated A or higher.

Bond portfolio quality

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

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

Mortgage portfolio

	June 30, 2019				December 31, 2018	
Mortgage loans by type	Insured	Non-insured	Total		Total	
Single family residential	\$ 592	\$ 1,491	\$ 2,083	9%	\$ 2,104	8%
Multi-family residential	3,810	3,509	7,319	31	7,617	31
Equity release	—	979	979	4	813	3
Commercial	276	12,948	13,224	56	14,480	58
Total	\$ 4,678	\$ 18,927	\$ 23,605	100%	\$ 25,014	100%

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

Single family residential mortgages

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

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

Provision for future credit losses

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

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

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

United Kingdom property related exposures

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

In the second quarter of 2019, a number of the Company's U.K. mortgage loans and investment properties were impacted as certain U.K. retailers occupying the properties continued to experience financial difficulties. For these mortgage loans and investment properties, a decline in the expected cash flows from the properties resulted in an increase in insurance contract liabilities, which negatively impacted common shareholders' net earnings by \$68 million and was primarily related to a U.K. retail tenant that entered a prepackaged administration during the quarter.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

During the six month period ended June 30, 2019, the outstanding notional amount of derivative contracts increased by \$0.7 billion to \$20.3 billion, primarily due to an increase in forward settling mortgage backed security transactions ("to-be-announced-securities") and regular hedging activities.

The Company's exposure to derivative counterparty credit risk, which reflects the current fair value of those instruments in a gain position, increased to \$655 million at June 30, 2019 from \$417 million at December 31, 2018. The increase was primarily driven by the impact of the Canadian dollar strengthening against the U.S. dollar on cross-currency swaps that pay U.S. and receive Canadian dollars.

LIABILITIES

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

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

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

Segregated Fund and Variable Annuity Guarantees

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

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

Segregated fund and variable annuity guarantee exposure

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

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

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

The investment deficiency measures the point-in-time exposure to a trigger event (i.e., income election, maturity or death) assuming it occurred on June 30, 2019. The actual cost to the Company will depend on the trigger event having occurred and the market values at that time. The actual claims before tax associated with these guarantees were \$6 million in-quarter (\$2 million for the second quarter of 2018) and \$11 million year-to-date (\$8 million year-to-date for 2018) with the majority arising in the Reinsurance business unit in the Europe segment.

LIFECO CAPITAL STRUCTURE

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

DEBENTURES AND OTHER DEBT INSTRUMENTS

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

SHARE CAPITAL AND SURPLUS

Share capital outstanding at June 30, 2019 was \$8,346 million, which was comprised of \$5,632 million of common shares, \$2,464 million of non-cumulative First Preferred Shares, \$213 million of 5-year rate reset First Preferred Shares and \$37 million of floating rate First Preferred Shares. Common shares decreased by \$1,651 million from December 31, 2018, due to the substantial issuer bid described below, which included the Company issuing and subsequently canceling 595,747,641 shares as part of a Qualifying Holdco Alternative (as described in the Offer documents).

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

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

LIQUIDITY AND CAPITAL MANAGEMENT AND ADEQUACY

LIQUIDITY

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

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

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

CASH FLOWS

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

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

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

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

COMMITMENTS/CONTRACTUAL OBLIGATIONS

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

CAPITAL MANAGEMENT AND ADEQUACY

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

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Life Insurance Capital Adequacy Test (LICAT).

The LICAT ratio compares the regulatory capital resources of a company to its Base Solvency Buffer or required capital. The Base Solvency Buffer is calibrated so that a life insurer can both withstand severe stress events and support the continuity of existing business.

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

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

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

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

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

OSFI Regulatory Capital Initiatives

The IASB issued IFRS 17, *Insurance Contracts*, which will replace IFRS 4, *Insurance Contracts*. The IASB Board agreed to implementation of IFRS 17, for periods beginning on or after January 1, 2022. IFRS 17 includes, among other things, new requirements for the recognition and measurement of insurance contracts the Company issues and reinsurance contracts it holds. The new standard is expected to have a significant impact for insurers related to the timing of earnings recognition and on the presentation and disclosure of results. Adoption of the standard is expected to lead to further review and possible amendments to the OSFI LICAT Guideline.

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

CAPITAL ALLOCATION METHODOLOGY

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

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

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

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

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

(3) Canada adjusted net earnings exclude \$19 million related to the impact of U.S. tax reform in the fourth quarter of 2017.

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

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

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

The Company reported ROE based on net earnings of 12.0% at June 30, 2019, down from 13.5% at March 31, 2019. Lifeco's net earnings for the second quarter of 2018 included a net positive impact of \$60 million, arising from refinancing in the U.S. segment completed in the quarter, which increased the March 31, 2019 and June 30, 2018 ROE by 0.3%.

The Company reported ROE based on adjusted net earnings of 13.2% at June 30, 2019, down from 13.7% at March 31, 2019 and 14.2% at June 30, 2018. Adjusted net earnings exclude the net charge relating to the sale, via indemnity reinsurance, of the U.S. individual life insurance and annuity business, the impact of U.S. tax reform, the net charge on the sale of an equity investment and restructuring costs.

RATINGS

Lifeco maintains ratings from five independent ratings companies. Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a corporation and are indicators of the likelihood of payment and the capacity of a corporation to meet its obligations in accordance with the terms of each obligation. In second quarter of 2019, the credit ratings for Lifeco and its major operating subsidiaries were unchanged (set out in table below). The Company continued to receive strong ratings relative to its North American peer group resulting from its conservative risk profile, stable net earnings and consistent dividend track record. These ratings are not a recommendation to buy, sell or hold the securities of the Company or its subsidiaries and do not address market price or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating agency.

Lifeco's operating companies are assigned a group rating from each rating agency. This group rating is predominantly supported by the Company's leading position in the Canadian insurance market and competitive positions in the U.S. and European markets. Great-West Life, London Life and Canada Life have common management, governance and strategy, as well as an integrated business platform. Each operating company benefits from the strong implicit financial support and collective ownership by Lifeco. There were no changes to the Company's group credit ratings in second quarter of 2019.

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

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

SEGMENTED OPERATING RESULTS

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

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

CANADA

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

Selected consolidated financial information - Canada

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

2019 DEVELOPMENTS

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

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

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

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

BUSINESS UNITS - CANADA

INDIVIDUAL CUSTOMER

OPERATING RESULTS

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

Premiums and deposits

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

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

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

Sales

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

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

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

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

Fee and other income

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

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

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

Net earnings

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

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

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

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

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

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

GROUP CUSTOMER

OPERATING RESULTS

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

Premiums and deposits

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

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

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

Sales

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

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

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

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

Fee and other income

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

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

Net earnings

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

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

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

CANADA CORPORATE

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

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

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

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

UNITED STATES

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

Through its Financial Services business unit, and specifically the Empower Retirement brand, the Company provides an array of financial security products, including employer-sponsored defined contribution plans, administrative and recordkeeping services, individual retirement accounts, fund management as well as investment and advisory services. Following the close of the reinsurance transaction, Financial Services also includes a retained block of life insurance, predominately participating policies, which are now administered by Protective Life, as well as a closed retrocession block of life insurance.

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

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

TRANSLATION OF FOREIGN CURRENCY

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

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

Selected consolidated financial information - United States

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

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

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

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

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

2019 DEVELOPMENTS

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

Net earnings - common shareholders

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

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

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

BUSINESS UNITS – UNITED STATES

FINANCIAL SERVICES

2019 DEVELOPMENTS

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

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

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

OPERATING RESULTS

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

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

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

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

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

Premiums and deposits

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

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

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

Sales

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

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

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

Fee and other income

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

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

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

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

Net earnings

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

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

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

ASSET MANAGEMENT**2019 DEVELOPMENTS**

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

OPERATING RESULTS

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

⁽¹⁾ Core net earnings (loss) (a non-IFRS financial measure) is a measure of the Asset Management business unit's performance. Core net earnings (loss) includes the impact of dealer commissions and software amortization and excludes the impact of certain corporate financing charges and allocations, certain tax adjustments and other non-recurring transactions.

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

Sales

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

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

Sales in the second quarter of 2019 were US\$9.3 billion compared to US\$10.9 billion in the previous quarter. The decrease was primarily due to a US\$0.9 billion decrease in institutional sales and a US\$0.7 billion decrease in mutual fund sales.

Fee income

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

Fee income for the second quarter of 2019 decreased by US\$6 million to US\$222 million compared to the same quarter last year. The decrease was primarily due to lower investment management fees, driven by a change in asset mix, as well as lower underwriting and distribution fees, partially offset by higher mutual fund performance fees.

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

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

Net earnings

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

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

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

ASSETS UNDER MANAGEMENT

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

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

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

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

UNITED STATES CORPORATE

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

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

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

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

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

REINSURED INSURANCE & ANNUITY BUSINESS

OPERATING RESULTS

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

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

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

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

Premiums and deposits

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

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

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

Sales

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

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

Fee and other income

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

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

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

Net earnings

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

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

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

EUROPE

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

TRANSLATION OF FOREIGN CURRENCY

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

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

Selected consolidated financial information - Europe

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

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

2019 DEVELOPMENTS

- As of June 30, 2019, £10 million of pre-tax annualized expense reductions have been achieved relating to the U.K. restructuring program compared to £8 million at March 31, 2019. The Company remains on track to achieve targeted annual expense reductions of £20 million pre-tax by the end of the fourth quarter of 2020 from various sources including process improvements and a reduction in headcount.
- Some market volatility continues with the U.K. due to leave the European Union (EU) on October 31, 2019. Exit negotiations between the U.K. and the EU concluded in the Withdrawal Agreement, which was endorsed by the leaders of the 27 remaining EU countries on November 25, 2018. However, the agreement has not been ratified by the U.K. and EU Parliaments. The Company's U.K. and other European businesses have plans which have been executed, or are ready to be executed, that will address and minimize the impact under several different outcomes, including where the U.K. has no exit agreements with the EU. While there are some impacts from market uncertainty, the impacts are not expected to have a material impact on the Company's financial results.
- During the second quarter of 2019, a number of the Company's U.K. mortgage loans and investment properties were impacted as certain U.K. retailers occupying the properties continued to experience financial difficulties, which included a major U.K. retail tenant entering a prepackaged administration. As a result, net earnings were negatively impacted by \$84 million, which included net impairment charges of \$16 million on mortgage loans as well as reductions in expected cash flows for mortgages and investment properties where these retailers are tenants that resulted in an increase in insurance contract liabilities and negatively impacted net earnings by \$68 million.
- During the second quarter of 2019, the Company accepted a long-term longevity reinsurance agreement covering a £2.5 billion portfolio of U.K. pension obligations.
- Assekuranz Rating-Agentur GmbH (Assekurata), a German financial strength rating agency, reconfirmed the AA-Financial Strength Rating of Canada Life Assurance Europe plc, a subsidiary of the Company.
- During the second quarter of 2019, Irish Life Group Limited, a subsidiary of the Company, launched the MyLife platform into the Irish market. MyLife is a personalized health and wellness application that inspires people to lead a healthier and more active life.

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

BUSINESS UNITS – EUROPE

INSURANCE & ANNUITIES

OPERATING RESULTS

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

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

Premiums and deposits

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

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

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

Sales

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

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

Fee and other income

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

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

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

Net earnings

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

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

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

REINSURANCE

OPERATING RESULTS

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

Premiums and deposits

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

Premiums and deposits for the second quarter of 2019 increased from \$3.2 billion to \$4.4 billion compared to the same quarter last year, primarily due to new reinsurance agreements, higher volumes relating to existing business and the impact of currency movement.

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

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

Fee and other income

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

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

Net earnings

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

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

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

EUROPE CORPORATE

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

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

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

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

LIFECO CORPORATE OPERATING RESULTS

The Lifeco Corporate segment includes operating results for activities of Lifeco that are not associated with the major business units of the Company.

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

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

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

RISK MANAGEMENT AND CONTROL PRACTICES

The Company's Enterprise Risk Management (ERM) Framework facilitates the alignment of business strategy with risk appetite, informs and improves the deployment of capital; and supports the identification, mitigation and management of exposure to risk and potential losses. The Company's Risk Function is responsible for the Risk Appetite Framework (RAF), the supporting risk policies and risk limit structure, and provides independent risk oversight across the Company's operations. The Board of Directors is ultimately responsible for the Company's risk governance and associated risk policies. These include the ERM Policy, which establishes the guiding principles of risk management, and the RAF, which reflects the levels and types of risk that the Company is willing to accept to achieve its business objectives. During the second quarter of 2019, there were no significant changes to the Company's risk management and control practices. Refer to the Company's 2018 Annual MD&A for a detailed description of the Company's risk management and control practices.

ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Due to the evolving nature of IFRS, there are a number of IFRS changes impacting the Company in 2019, as well as standards that could impact the Company in future reporting periods. The Company actively monitors future IFRS changes proposed by the International Accounting Standards Board (IASB) to assess if the changes to the standards may have an impact on the Company's results or operations.

Effective January 1, 2019, the Company applied IFRIC 23, *Uncertainty over Income Tax Treatments* (IFRIC 23). The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The application of the interpretation of the standard resulted in a decrease of \$109 million to opening accumulated surplus at January 1, 2019, reflecting \$52 million for Canada and \$57 million for Europe.

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

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

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

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

There have been no other significant changes to the future accounting policies that could impact the Company, in addition to the disclosure in the December 31, 2018 Annual MD&A.

OTHER INFORMATION

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

TRANSACTIONS WITH RELATED PARTIES

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

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

QUARTERLY FINANCIAL INFORMATION

Quarterly financial information (in \$ millions, except per share amounts)									
		2019		2018				2017	
		Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue⁽¹⁾⁽²⁾		\$ 2,746	\$ 16,889	\$ 11,699	\$ 12,027	\$ 10,613	\$ 9,693	\$ 12,912	\$ 10,222
Common shareholders									
Net earnings									
Total		\$ 459	\$ 657	\$ 710	\$ 689	\$ 831	\$ 731	\$ 392	\$ 581
Basic - per share		0.489	0.665	0.719	0.697	0.839	0.740	0.397	0.587
Diluted - per share		0.489	0.665	0.719	0.697	0.839	0.739	0.396	0.587
Adjusted net earnings⁽³⁾									
Total		\$ 658	\$ 657	\$ 710	\$ 745	\$ 831	\$ 731	\$ 734	\$ 582
Basic - per share		0.701	0.665	0.719	0.754	0.839	0.740	0.742	0.589
Diluted - per share		0.700	0.665	0.719	0.753	0.839	0.739	0.741	0.588

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

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

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

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

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

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

TRANSLATION OF FOREIGN CURRENCY

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

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

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

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

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

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

	For the three months ended			For the six months ended	
	June 30	March 31	June 30	June 30	June 30
	2019	2019	2018	2019	2018
Net earnings	\$ 493	\$ 690	\$ 864	\$ 1,183	\$ 1,628
Other comprehensive income (loss)					
Items that may be reclassified subsequently to Consolidated Statements of Earnings					
Unrealized foreign exchange gains (losses) on translation of foreign operations	(466)	(214)	(339)	(680)	416
Unrealized foreign exchange gains (losses) on euro debt designated as hedges of the net investment in foreign operations	10	60	60	70	(20)
Income tax (expense) benefit	(1)	(8)	(8)	(9)	3
Unrealized gains (losses) on available-for-sale assets	93	159	(15)	252	(102)
Income tax (expense) benefit	(16)	(29)	5	(45)	20
Realized (gains) losses on available-for-sale assets	(23)	(5)	4	(28)	5
Income tax expense (benefit)	3	—	(1)	3	(1)
Unrealized gains (losses) on cash flow hedges	1	1	(3)	2	23
Income tax (expense) benefit	—	—	1	—	(4)
Realized (gains) losses on cash flow hedges	—	—	(81)	—	(69)
Income tax expense (benefit)	—	—	20	—	17
Non-controlling interests	(12)	(66)	6	(78)	16
Income tax (expense) benefit	4	12	(2)	16	(6)
Total items that may be reclassified	(407)	(90)	(353)	(497)	298
Items that will not be reclassified to Consolidated Statements of Earnings					
Re-measurements on defined benefit pension and other post-employment benefit plans (note 14)	(184)	(114)	150	(298)	196
Income tax (expense) benefit	41	26	(34)	67	(43)
Non-controlling interests	16	11	(10)	27	(12)
Income tax (expense) benefit	(4)	(3)	2	(7)	3
Total items that will not be reclassified	(131)	(80)	108	(211)	144
Total other comprehensive income (loss)	(538)	(170)	(245)	(708)	442
Comprehensive income (loss)	\$ (45)	\$ 520	\$ 619	\$ 475	\$ 2,070

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

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

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

	June 30, 2019					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	\$ 9,997	\$ 139	\$ 13,342	\$ 1,045	\$ 2,875	\$ 27,398
Change in accounting policy (note 2)	—	—	(109)	—	—	(109)
Revised balance, beginning of year	9,997	139	13,233	1,045	2,875	27,289
Net earnings (loss)	—	—	1,183	—	(2)	1,181
Other comprehensive income (loss)	—	—	—	(708)	42	(666)
	9,997	139	14,416	337	2,915	27,804
Dividends to shareholders						
Preferred shareholders (note 12)	—	—	(67)	—	—	(67)
Common shareholders	—	—	(791)	—	—	(791)
Shares exercised and issued under share-based payment plans (note 11)	25	(32)	—	—	29	22
Share-based payment plans expense	—	20	—	—	—	20
Equity settlement of Putnam share-based plans	—	—	—	—	(26)	(26)
Shares purchased and cancelled under Substantial Issuer Bid (note 11)	(2,000)	—	—	—	—	(2,000)
Excess of redemption proceeds over stated capital per Substantial Issuer Bid (note 11)	1,628	—	(1,628)	—	—	—
Common share carrying value adjustment per Substantial Issuer Bid (note 11)	(1,304)	—	1,304	—	—	—
Substantial Issuer Bid transaction costs (note 11)	—	—	(3)	—	—	(3)
Shares cancelled under Putnam share-based plans	—	33	—	—	(37)	(4)
Balance, end of period	\$ 8,346	\$ 160	\$ 13,231	\$ 337	\$ 2,881	\$ 24,955

	June 30, 2018					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income	Non-controlling interests	Total equity
Balance, beginning of year	\$ 9,974	\$ 143	\$ 12,098	\$ 386	\$ 2,935	\$ 25,536
Change in accounting policy	—	—	(64)	—	—	(64)
Revised balance, beginning of year	9,974	143	12,034	386	2,935	25,472
Net earnings	—	—	1,628	—	18	1,646
Other comprehensive income (loss)	—	—	—	442	(1)	441
	9,974	143	13,662	828	2,952	27,559
Dividends to shareholders						
Preferred shareholders (note 12)	—	—	(66)	—	—	(66)
Common shareholders	—	—	(770)	—	—	(770)
Shares exercised and issued under share-based payment plans (note 11)	37	(41)	—	—	36	32
Share-based payment plans expense	—	26	—	—	—	26
Equity settlement of Putnam share-based plans	—	—	—	—	(57)	(57)
Shares purchased and cancelled under Normal Course Issuer Bid (note 11)	(29)	—	—	—	—	(29)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 11)	23	—	(23)	—	—	—
Acquisition of PanAgora non-controlling interest	—	—	(54)	—	(21)	(75)
Dilution loss on non-controlling interests	—	—	(7)	—	7	—
Balance, end of period	\$ 10,005	\$ 128	\$ 12,742	\$ 828	\$ 2,917	\$ 26,620

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

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

CONDENSED NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

(in Canadian \$ millions except per share amounts)

1. Corporate Information

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

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

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

2. Basis of Presentation and Summary of Accounting Policies

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

The financial statements of the Company at June 30, 2019 have been prepared in compliance with the requirements of International Accounting Standard (IAS) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) using the same accounting policies and methods of computation followed in the consolidated annual audited financial statements for the year ended December 31, 2018 except as described below.

Changes in Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

There have been no other significant changes to the future accounting policies that could impact the Company, as disclosed in the December 31, 2018 consolidated annual audited financial statements.

Use of Significant Judgments, Estimates and Assumptions

In preparation of these financial statements, management is required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Although some uncertainty is inherent in these judgments and estimates, management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty and areas where significant judgments have been made are further described in the relevant accounting policies as described in note 2 of the Company's December 31, 2018 consolidated annual audited financial statements and notes thereto.

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

3. Business Acquisitions and Other Transactions

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

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

(b) Invesco Ltd. (Ireland)

On August 1, 2018, the Company, through its indirect wholly-owned subsidiary Irish Life Group Limited, completed its agreement to acquire a controlling interest in Invesco Ltd. (Ireland), an independent financial consultancy firm in Ireland that specializes in employee benefit consultancy and private wealth management who manages and administers assets on behalf of clients.

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

4. Assets Held for Sale

Sale of policies to Scottish Friendly

In 2018, Canada Life Limited, an indirect wholly-owned subsidiary of the Company, announced an agreement to sell a heritage block of individual policies to Scottish Friendly, comprised of unit-linked policies and non unit-linked policies. The transfer of these policies is expected to occur in the second half of 2019, as part of the United Kingdom Business Transformation (note 5). The composition of the assets and liabilities of the disposal group classified as assets held for sale are as follows:

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

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

5. Restructuring Expenses

United Kingdom Business Transformation

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

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

6. Portfolio Investments

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

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

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

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

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

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

6. Portfolio Investments (cont'd)

(b) Included in portfolio investments are the following:

Carrying amount of impaired investments

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

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

(c) Net investment income comprises the following:

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

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

6. Portfolio Investments (cont'd)

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

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

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

6. Portfolio Investments (cont'd)

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

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

7. Financial Instruments Risk Management

The Company has policies relating to the identification, measurement, management, monitoring and reporting of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The Risk Committee of the Board of Directors is responsible for the oversight of the Company's key risks. The Company's approach to risk management has not substantially changed from that described in the Company's 2018 Annual Report. Certain risks have been outlined below. For a discussion of the Company's risk governance structure and risk management approach, see the "Financial Instruments Risk Management" note in the Company's December 31, 2018 consolidated annual audited financial statements.

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

(a) Credit Risk

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

Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. No significant changes have occurred from the year ended December 31, 2018.

(b) Liquidity Risk

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

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

(c) Market Risk

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

Caution Related to Risk Sensitivities

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

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

7. Financial Instruments Risk Management (cont'd)

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

(i) Currency Risk

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

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

(ii) Interest Rate Risk

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

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

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

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

7. Financial Instruments Risk Management (cont'd)

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

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

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

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

(iii) Equity Risk

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

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

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

7. Financial Instruments Risk Management (cont'd)

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

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

8. Fair Value Measurement

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

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

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

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

8. Fair Value Measurement (cont'd)

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

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

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

⁽²⁾ Includes collateral received under securities lending agreements.

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

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

8. Fair Value Measurement (cont'd)

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

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

⁽²⁾ Includes collateral received under securities lending arrangements.

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

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

8. Fair Value Measurement (cont'd)

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

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

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

8. Fair Value Measurement (cont'd)

December 31, 2018

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

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

8. Fair Value Measurement (cont'd)

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

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate Reversionary rate Vacancy rate	Range of 2.6% - 10.4% Range of 4.3% - 6.8% Weighted average of 3.4%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value. 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	Range of 4.1% - 4.6%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

9. Insurance and Investment Contract Liabilities

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

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

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

10. Segregated Funds

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

(a) Investments on account of segregated fund policyholders

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

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

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

10. Segregated Funds (cont'd)

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

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

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

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

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

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

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

During the first six months of 2019 certain foreign stock holdings valued at \$1,377 have been transferred from Level 2 to Level 1 (\$1,842 were transferred from Level 2 to Level 1 at December 31, 2018) primarily based on the Company's change in use of inputs in addition to quoted prices in active markets for certain foreign stock holdings. Level 2 assets include those assets where fair value is not available from normal market pricing sources, where inputs are utilized in addition to quoted prices in active markets and where the Company does not have visibility through to the underlying assets.

10. Segregated Funds (cont'd)

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

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

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

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

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors. There were no transfers into or out of Level 3 during the period ended June 30, 2019.

11. Share Capital

Common Shares

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

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

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

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

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

Related Party Transaction

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

11. Share Capital (cont'd)

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

12. Earnings per Common Share

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

13. Capital Management

(a) Policies and Objectives

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

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

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

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

13. Capital Management (cont'd)

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

(b) Regulatory Capital

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a regulatory capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries.

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

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

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

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

14. Pension Plans and Other Post-Employment Benefits

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

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

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

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

15. Income Taxes

(a) Income Tax Expense

Income tax expense (recovery) consists of the following:

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

(b) Effective Income Tax Rate

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

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

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

16. Segmented Information

Consolidated Net Earnings

For the three months ended June 30, 2019

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

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

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

16. Segmented Information (cont'd)

For the three months ended June 30, 2018

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

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

16. Segmented Information (cont'd)

For the six months ended June 30, 2019

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

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

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

16. Segmented Information (cont'd)

For the six months ended June 30, 2018

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

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

IGM FINANCIAL INC.

PART C

MANAGEMENT'S DISCUSSION AND ANALYSIS

PAGE C 2

FINANCIAL STATEMENTS AND NOTES

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Please note that the bottom of each page in Part C contains two different page numbers. A page number with the prefix "C" refers to the number of such page in this document and the page number without any prefix refers to the number of such page in the original document issued by IGM Financial Inc.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents management's view of the results of operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) as at and for the three and six months ended June 30, 2019 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements (Interim Financial Statements) as well as the 2018 IGM Financial Inc. Annual Report and the 2019 IGM Financial Inc. First Quarter Report to Shareholders filed on www.sedar.com. Commentary in the MD&A as at and for the three and six months ended June 30, 2019 is as of July 31, 2019.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The Interim Financial Statements of IGM Financial, which are the basis of the information presented in the Company's MD&A, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (IFRS) and are presented in Canadian dollars (Note 2 of the Interim Financial Statements).

FORWARD-LOOKING STATEMENTS

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

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. While the Company considers these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

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

A variety of material factors, many of which are beyond the Company's and its subsidiaries' control, affect the operations, performance and results of the Company, and

its subsidiaries, and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes, operational and reputational risks, business competition, technological change, changes in government regulations and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Company's ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Company's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned that the foregoing list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not place undue reliance on forward-looking statements.

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

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

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

Net earnings available to common shareholders, which is an additional measure in accordance with IFRS, may be subdivided into two components consisting of:

- Adjusted net earnings available to common shareholders; and
- Other items, which include the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful.

"Adjusted net earnings available to common shareholders", "adjusted diluted earnings per share" (EPS) and "adjusted return on average common equity" (ROE) are non-IFRS financial measures which are used to provide management and investors with additional measures to assess earnings performance. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before interest and taxes" (EBIT), "earnings before interest, taxes, depreciation and amortization before sales commissions" (EBITDA before sales commissions), and "earnings before interest, taxes, depreciation and amortization after sales commissions" (EBITDA after sales commissions) are also non-IFRS financial measures. EBIT, EBITDA before sales commissions and EBITDA after sales commissions are alternative measures

of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. The two EBITDA measures have been introduced following the adoption of IFRS 15. EBITDA before sales commissions excludes all mutual fund sales commissions and is comparable to prior periods. EBITDA after sales commissions includes all sales commissions and highlights aggregate cash flows. Other items of a non-recurring nature, or that could make the period-over-period comparison of results from operations less meaningful, are further excluded to arrive at EBITDA before sales commissions and EBITDA after sales commissions. These non-IFRS financial measures do not have standard meanings prescribed by IFRS and may not be directly comparable to similar measures used by other companies.

"Earnings before income taxes" and "net earnings available to common shareholders" are additional IFRS measures which are used to provide management and investors with additional measures to assess earnings performance. These measures are considered additional IFRS measures as they are in addition to the minimum line items required by IFRS and are relevant to an understanding of the entity's financial performance.

Refer to the appropriate reconciliations of non-IFRS financial measures to reported results in accordance with IFRS in Tables 1 to 4.

IGM FINANCIAL INC.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

IGM Financial Inc. (TSX:IGM) is a leading wealth and asset management company. The Company's principal businesses are Investors Group Inc. and Mackenzie Financial Corporation, each operating distinctly primarily within the advice segment of the financial services market.

Total assets under management were \$162.3 billion at June 30, 2019, the highest quarter end level in the history of the Company, compared with \$159.1 billion at June 30, 2018, as detailed in Tables 6 and 7. Average total assets under management for the second quarter of 2019 were \$161.8 billion compared to \$157.5 billion in the second quarter of 2018. Average total assets under management for the six months ended June 30, 2019 were \$158.8 billion compared to \$157.2 billion for the six months ended June 30, 2018.

Investment fund assets under management, also at the highest quarter-end level, were \$156.3 billion at June 30, 2019 compared with \$152.5 billion at June 30, 2018. Average investment fund assets under management for the second quarter of 2019 were \$155.7 billion compared to \$150.9 billion in the second quarter of 2018. Average investment fund assets under management for the six months ended June 30, 2019 were \$152.8 billion compared to \$150.5 billion for the six months ended June 30, 2018.

Net earnings available to common shareholders for the three months ended June 30, 2019 were \$185.1 million or 77 cents per share compared with net earnings available to common shareholders of \$203.7 million or 85 cents per share for the comparative period in 2018. Adjusted net earnings available to common shareholders, excluding other items, for the three

TABLE 1: RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(\$ millions)	THREE MONTHS ENDED			SIX MONTHS ENDED	
	2019 JUN. 30	2019 MAR. 31	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30
Adjusted net earnings available to common shareholders – Non-IFRS measure	\$ 193.1	\$ 167.5	\$ 203.7	\$ 360.6	\$ 389.2
Proportionate share of associate's one-time loss	(8.0)	–	–	(8.0)	–
Net earnings available to common shareholders – IFRS	\$ 185.1	\$ 167.5	\$ 203.7	\$ 352.6	\$ 389.2
Adjusted net earnings per share⁽¹⁾ available to common shareholders – Non-IFRS measure	\$ 0.81	\$ 0.70	\$ 0.85	\$ 1.50	\$ 1.61
Proportionate share of associate's one-time loss	(0.04)	–	–	(0.03)	–
Net earnings per share⁽¹⁾ available to common shareholders – IFRS	\$ 0.77	\$ 0.70	\$ 0.85	\$ 1.47	\$ 1.61
EBITDA before sales commissions – Non-IFRS measure	\$ 324.5	\$ 295.9	\$ 342.2	\$ 620.4	\$ 675.4
Sales-based commissions paid	(38.0)	(43.7)	(44.5)	(81.7)	(106.8)
EBITDA after sales commissions – Non-IFRS measure	286.5	252.2	297.7	538.7	568.6
Sales-based commissions paid subject to amortization	14.8	12.6	12.7	27.4	29.0
Amortization of capitalized sales commissions	(5.2)	(4.8)	(3.4)	(10.0)	(6.3)
Amortization of capital assets and intangible assets and other ⁽²⁾	(19.7)	(20.0)	(13.8)	(39.7)	(27.7)
Interest expense ⁽³⁾	(27.7)	(25.2)	(28.8)	(52.9)	(59.1)
Adjusted earnings before income taxes – Non-IFRS measure	248.7	214.8	264.4	463.5	504.5
Proportionate share of associate's one-time loss	(8.0)	–	–	(8.0)	–
Earnings before income taxes	240.7	214.8	264.4	455.5	504.5
Income taxes	(55.6)	(45.1)	(58.5)	(100.7)	(110.9)
Perpetual preferred share dividends	–	(2.2)	(2.2)	(2.2)	(4.4)
Net earnings available to common shareholders – IFRS	\$ 185.1	\$ 167.5	\$ 203.7	\$ 352.6	\$ 389.2

(1) Diluted earnings per share.

(2) Amortization expense includes amortization on capital assets and intangible assets and in 2019 also includes amortization on right-of-use assets as a result of the Company's adoption of IFRS 16, Leases (second quarter – \$5.8 million; first quarter – \$5.7 million; six months – \$11.5 million).

(3) Interest expense includes interest on long-term debt and in 2019 also includes interest on leases as a result of the Company's adoption of IFRS 16, Leases (second quarter – \$1.0 million; first quarter – \$1.1 million; six months – \$2.1 million).

months ended June 30, 2019 were \$193.1 million or 81 cents per share compared with \$203.7 million or 85 cents per share for the comparative period in 2018.

Net earnings available to common shareholders for the six months ended June 30, 2019 were \$352.6 million or \$1.47 per share compared to net earnings available to common shareholders of \$389.2 million or \$1.61 per share for the comparative period in 2018. Adjusted net earnings available to common shareholders, excluding other items, for the six months ended June 30, 2019 were \$360.6 million or \$1.50 per share compared to \$389.2 million or \$1.61 per share for the comparative period in 2018.

Other items of \$8.0 million for the three and six months ended June 30, 2019 represented the Company's proportionate share in Great-West Lifeco Inc.'s after-tax loss on the sale of its United States individual life insurance and annuity business.

Shareholders' equity was \$4.4 billion as at June 30, 2019 compared to \$4.6 billion at December 31, 2018. Return on

average common equity based on adjusted net earnings for the six months ended June 30, 2019 was 16.4% compared with 18.2% for the comparative period in 2018. The quarterly dividend per common share declared in the second quarter of 2019 was 56.25 cents, unchanged from the first quarter of 2019.

REPORTABLE SEGMENTS

IGM Financial's reportable segments are:

- IG Wealth Management (IG Wealth Management or IG)
- Mackenzie Investments (Mackenzie Investments or Mackenzie)
- Corporate and Other

These segments, as shown in Tables 2, 3 and 4 reflect the Company's internal financial reporting and performance measurement.

Certain items reflected in Tables 2, 3, and 4 are not allocated to segments:

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q2 2019 VS. Q2 2018

THREE MONTHS ENDED (\$ millions)	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		CORPORATE & OTHER		TOTAL	
	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30
Revenues								
Fee income	\$ 491.7	\$ 483.8	\$ 202.3	\$ 203.4	\$ 71.8	\$ 72.6	\$ 765.8	\$ 759.8
Net investment income and other	13.6	12.1	0.8	2.5	31.7	41.6	46.1	56.2
	505.3	495.9	203.1	205.9	103.5	114.2	811.9	816.0
Expenses								
Commission	157.5	151.6	73.5	72.9	44.8	45.6	275.8	270.1
Non-Commission ⁽¹⁾	152.9	146.9	84.8	84.3	22.0	21.5	259.7	252.7
	310.4	298.5	158.3	157.2	66.8	67.1	535.5	522.8
Earnings before interest and taxes	\$ 194.9	\$ 197.4	\$ 44.8	\$ 48.7	\$ 36.7	\$ 47.1	276.4	293.2
Interest expense ⁽²⁾							(27.7)	(28.8)
Proportionate share of associate's one-time loss							(8.0)	–
Earnings before income taxes							240.7	264.4
Income taxes							55.6	58.5
Net earnings							185.1	205.9
Perpetual preferred share dividends							–	2.2
Net earnings available to common shareholders							\$ 185.1	\$ 203.7
Adjusted net earnings available to common shareholders⁽³⁾							\$ 193.1	\$ 203.7

(1) The Company's investment management functions reside at Mackenzie Investments and the cost of investment management activities is allocated proportionately between the segments.

(2) Interest expense includes interest on long-term debt and in 2019 also includes interest on leases of \$1.0 million as a result of the Company's adoption of IFRS 16, Leases.

(3) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

Adjusted net earnings excludes other items in 2019:

– Proportionate share of associate's one-time loss was recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings.

TABLE 3: CONSOLIDATED OPERATING RESULTS BY SEGMENT – YTD 2019 VS. YTD 2018

SIX MONTHS ENDED (\$ millions)	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		CORPORATE & OTHER		TOTAL	
	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30
Revenues								
Fee income	\$ 964.9	\$ 966.0	\$ 395.3	\$ 406.3	\$ 141.8	\$ 145.0	\$ 1,502.0	\$ 1,517.3
Net investment income and other	23.6	22.4	5.0	2.3	70.4	83.6	99.0	108.3
	988.5	988.4	400.3	408.6	212.2	228.6	1,601.0	1,625.6
Expenses								
Commission	314.5	316.4	146.0	148.2	90.0	91.6	550.5	556.2
Non-Commission ⁽¹⁾	315.8	291.6	173.6	170.1	44.7	44.1	534.1	505.8
	630.3	608.0	319.6	318.3	134.7	135.7	1,084.6	1,062.0
Earnings before interest and taxes	\$ 358.2	\$ 380.4	\$ 80.7	\$ 90.3	\$ 77.5	\$ 92.9	516.4	563.6
Interest expense ⁽²⁾							(52.9)	(59.1)
Proportionate share of associate's one-time loss							(8.0)	–
Earnings before income taxes							455.5	504.5
Income taxes							100.7	110.9
Net earnings							354.8	393.6
Perpetual preferred share dividends							2.2	4.4
Net earnings available to common shareholders							\$ 352.6	\$ 389.2
Adjusted net earnings available to common shareholders⁽³⁾							\$ 360.6	\$ 389.2

(1) The Company's investment management functions reside at Mackenzie Investments and the cost of investment management activities is allocated proportionately between the segments.

(2) Interest expense includes interest on long-term debt and in 2019 also includes interest on leases of \$2.1 million as a result of the Company's adoption of IFRS 16, Leases.

(3) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

Adjusted net earnings excludes other items in 2019:

– Proportionate share of associate's one-time loss was recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings.

- *Interest expense* – represents interest expense on long-term debt and, in 2019 also includes interest expense on leases as a result of the adoption of IFRS 16, *Leases*. The change in interest expense in the period also resulted from the impact of the following transactions:
 - The redemption of \$150 million 6.58% debentures on March 7, 2018;
 - The issuance of \$200 million 4.174% debentures on July 11, 2018;
 - The early redemption of \$375 million 7.35% debentures on August 10, 2018, and;
 - The issuance of \$250 million 4.206% debentures on March 20, 2019.
- *2019 Proportionate share of associate's one-time loss* – represents the Company's proportionate share in Great-West Lifeco Inc.'s after-tax loss recorded in the second quarter on the sale of its United States individual life insurance and annuity business.
- *Income taxes* – changes in the effective tax rates are shown in Table 5.

Tax planning may result in the Company recording lower levels of income taxes. Management monitors the status of its income tax filings and regularly assesses the overall adequacy of its provision for income taxes and, as a result, income taxes recorded in prior years may be adjusted in the current year. The effect of changes in management's best estimates reported in adjusted net earnings is reflected in Other items, which also includes, but is not limited to, the effect of lower effective income tax rates on foreign operations.
- *Perpetual preferred share dividends* – represents the dividends declared on the Company's 5.90% non-cumulative first preferred shares. The decrease in the preferred share dividends reflects the redemption of the \$150.0 million in preferred shares on April 30, 2019.

TABLE 4: CONSOLIDATED OPERATING RESULTS BY SEGMENT – Q2 2019 VS. Q1 2019

THREE MONTHS ENDED (\$ millions)	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		CORPORATE & OTHER		TOTAL	
	2019 JUN. 30	2019 MAR. 31	2019 JUN. 30	2019 MAR. 31	2019 JUN. 30	2019 MAR. 31	2019 JUN. 30	2019 MAR. 31
Revenues								
Fee income	\$ 491.7	\$ 473.2	\$ 202.3	\$ 193.0	\$ 71.8	\$ 70.0	\$ 765.8	\$ 736.2
Net investment income and other	13.6	10.0	0.8	4.2	31.7	38.7	46.1	52.9
	505.3	483.2	203.1	197.2	103.5	108.7	811.9	789.1
Expenses								
Commission	157.5	157.0	73.5	72.5	44.8	45.2	275.8	274.7
Non-Commission ⁽¹⁾	152.9	162.9	84.8	88.8	22.0	22.7	259.7	274.4
	310.4	319.9	158.3	161.3	66.8	67.9	535.5	549.1
Earnings before interest and taxes	\$ 194.9	\$ 163.3	\$ 44.8	\$ 35.9	\$ 36.7	\$ 40.8	276.4	240.0
Interest expense ⁽²⁾							(27.7)	(25.2)
Proportionate share of associate's one-time loss							(8.0)	–
Earnings before income taxes							240.7	214.8
Income taxes							55.6	45.1
Net earnings							185.1	169.7
Perpetual preferred share dividends							–	2.2
Net earnings available to common shareholders							\$ 185.1	\$ 167.5
Adjusted net earnings available to common shareholders⁽³⁾							\$ 193.1	\$ 167.5

(1) The Company's investment management functions reside at Mackenzie Investments and the cost of investment management activities is allocated proportionately between the segments.

(2) Interest expense includes interest on long-term debt and interest on leases as a result of the Company's adoption of IFRS 16, Leases (second quarter – \$1.0 million; first quarter – \$1.1 million).

(3) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A for an explanation of the Company's use of non-IFRS financial measures.

Adjusted net earnings excludes other items in 2019:

– Proportionate share of associate's one-time loss was recorded in Proportionate share of associates' earnings in the Consolidated Statements of Earnings.

TABLE 5: EFFECTIVE INCOME TAX RATE

	THREE MONTHS ENDED			SIX MONTHS ENDED	
	2019 JUN. 30	2019 MAR. 31	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30
Income taxes at Canadian federal and provincial statutory rates	26.75 %	26.79 %	26.80 %	26.77 %	26.80 %
Effect of:					
Proportionate share of associates' earnings	(3.08)	(3.95)	(3.52)	(3.49)	(3.71)
Tax loss consolidation ⁽¹⁾	(1.41)	(1.55)	(1.29)	(1.48)	(1.35)
Other items	(0.05)	(0.32)	0.13	(0.17)	0.24
Effective income tax rate – adjusted net earnings	22.21	20.97	22.12	21.63	21.98
Proportionate share of associate's one-time loss	0.90	–	–	0.47	–
Effective income tax rate – net earnings	23.11 %	20.97 %	22.12 %	22.10 %	21.98 %

(1) See Note 25 – Related Party Transactions of the Consolidated Financial Statements included in the 2018 IGM Financial Inc. Annual Report (Annual Financial Statements).

TABLE 6: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – Q2 2019 VS. Q2 2018⁽¹⁾

THREE MONTHS ENDED (\$ millions)	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		INVESTMENT PLANNING COUNSEL		INTERCOMPANY ELIMINATIONS ⁽²⁾		CONSOLIDATED	
	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30
Investment funds										
Mutual funds⁽³⁾										
Gross sales	\$ 2,045	\$ 2,084	\$ 2,541	\$ 2,741	\$ 174	\$ 252	\$ –	\$ –	\$ 4,760	\$ 5,077
Net sales	(537)	(110)	207	30	(82)	5	–	–	(412)	(75)
ETFs										
Net creations			88	570			–	–	88	570
Inter-product eliminations ⁽²⁾			(11)	(153)			(29)	(171)	(40)	(324)
Total investment fund net sales⁽⁴⁾	(537)	(110)	284	447	(82)	5	(29)	(171)	(364)	171
Sub-advisory, institutional and other accounts										
Net sales			(534)	(97)			354	7	(180)	(90)
Combined net sales	\$ (537)	\$ (110)	\$ (250)	\$ 350	\$ (82)	\$ 5	\$ 325	\$ (164)	\$ (544)	\$ 81
Change in total assets under management										
Net sales	\$ (537)	\$ (110)	\$ (250)	\$ 350	\$ (82)	\$ 5	\$ 325	\$ (164)	\$ (544)	\$ 81
Investment returns	1,302	1,769	1,082	1,442	52	105	(31)	(26)	2,405	3,290
Net change in assets	765	1,659	832	1,792	(30)	110	294	(190)	1,861	3,371
Beginning assets	89,411	87,103	67,776	65,161	5,426	5,452	(2,146)	(1,958)	160,467	155,758
Ending assets	\$ 90,176	\$ 88,762	\$ 68,608	\$ 66,953	\$ 5,396	\$ 5,562	\$ (1,852)	\$ (2,148)	\$162,328	\$159,129
Total assets under management consists of:										
Investment funds										
Mutual funds ⁽³⁾	\$ 90,176	\$ 88,762	\$ 58,864	56,842	\$ 5,396	\$ 5,562	\$ –	\$ –	\$154,436	\$151,166
ETFs			3,454	2,600			–	–	3,454	2,600
Inter-product eliminations ⁽²⁾			(923)	(750)			(666)	(539)	(1,589)	(1,289)
Total investment funds	90,176	88,762	61,395	58,692	5,396	5,562	(666)	(539)	156,301	152,477
Sub-advisory, institutional and other accounts			7,213	8,261			(1,186)	(1,609)	6,027	6,652
Ending assets	\$ 90,176	\$ 88,762	\$ 68,608	\$ 66,953	\$ 5,396	\$ 5,562	\$ (1,852)	\$ (2,148)	\$162,328	\$159,129
Assets under administration⁽¹⁾	\$ 93,846	\$ 92,037	\$ 68,608	\$ 66,953	\$ 27,181	\$ 27,672	\$ (4,746)	\$ (5,034)	\$184,889	\$181,628

(1) Assets under management consists of assets in the Company's funds and pools.

Assets under administration consists of assets in Client accounts administered by the Company.

(2) Consolidated results eliminate double counting where business is reflected within multiple segments:

– Included with Mackenzie's results were advisory mandates to other segments with assets of \$1.9 billion at June 30, 2019 (2018 – \$2.1 billion) and net redemptions of \$325 million for the second quarter of 2019 (2018 – net sales of \$164 million).

– Included in ETFs are mutual fund investments in ETFs totalling \$923 million at June 30, 2019 (2018 – \$750 million) and net sales of \$11 million in the three months ending June 30, 2019 (2018 – \$153 million).

(3) IG Wealth Management and Investment Planning Counsel AUM and net sales includes separately managed accounts.

(4) During the second quarter of 2018, institutional clients which include Mackenzie mutual funds within their investment offerings made fund allocation changes which resulted in sales of \$381 million, redemptions of \$514 million and net redemptions of \$133 million.

SUMMARY OF CHANGES IN TOTAL ASSETS UNDER MANAGEMENT

Total assets under management were \$162.3 billion at June 30, 2019 compared to \$159.1 billion at June 30, 2018. Changes in total assets under management are detailed in Tables 6 and 7.

Changes in assets under management for IG Wealth Management and Mackenzie Investments are discussed further in each of their respective Review of the Business sections in the MD&A.

SUMMARY OF QUARTERLY RESULTS

The Summary of Quarterly Results in Table 8 includes the eight most recent quarters and the reconciliation of non-IFRS financial measures to net earnings in accordance with IFRS.

Changes in average daily investment fund assets under management over the eight most recent quarters, as shown in Table 8, largely reflect the impact of changes in domestic and foreign markets and net sales of the Company.

TABLE 7: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – 2019 VS. 2018⁽¹⁾

SIX MONTHS ENDED (\$ millions)	IG WEALTH MANAGEMENT		MACKENZIE INVESTMENTS		INVESTMENT PLANNING COUNSEL		INTERCOMPANY ELIMINATIONS ⁽²⁾		CONSOLIDATED	
	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30	2019 JUN. 30	2018 JUN. 30
Investment funds										
Mutual funds⁽³⁾										
Gross sales	\$ 4,395	\$ 4,943	\$ 5,046	\$ 5,371	\$ 393	\$ 512	\$ –	\$ –	\$ 9,834	\$ 10,826
Net sales	(551)	674	355	316	(98)	53	–	–	(294)	1,043
ETFs										
Net creations			316	1,285			–	–	316	1,285
Inter-product eliminations ⁽²⁾			(11)	(386)			(115)	(412)	(126)	(798)
Total investment fund net sales⁽⁴⁾	(551)	674	660	1,215	(98)	53	(115)	(412)	(104)	1,530
Sub-advisory, institutional and other accounts										
Net sales			(637)	132			350	(224)	(287)	(92)
Combined net sales	\$ (551)	\$ 674	\$ 23	\$ 1,347	\$ (98)	\$ 53	\$ 235	\$ (636)	\$ (391)	\$ 1,438
Change in total assets under management										
Net sales	\$ (551)	\$ 674	\$ 23	\$ 1,347	\$ (98)	\$ 53	\$ 235	\$ (636)	\$ (391)	\$ 1,438
Investment returns	7,590	80	5,857	1,097	369	132	(163)	(131)	13,653	1,178
Net change in assets	7,039	754	5,880	2,444	271	185	72	(767)	13,262	2,616
Beginning assets	83,137	88,008	62,728	64,509	5,125	5,377	(1,924)	(1,381)	149,066	156,513
Ending assets	\$ 90,176	\$ 88,762	\$ 68,608	\$ 66,953	\$ 5,396	\$ 5,562	\$ (1,852)	\$ (2,148)	\$ 162,328	\$ 159,129
Assets under administration⁽¹⁾	\$ 93,846	\$ 92,037	\$ 68,608	\$ 66,953	\$ 27,181	\$ 27,672	\$ (4,746)	\$ (5,034)	\$ 184,889	\$ 181,628

(1) Assets under management consists of assets in the Company's funds and pools.

Assets under administration consists of assets in Client accounts administered by the Company.

(2) Consolidated results eliminate double counting where business is reflected within multiple segments:

– Included with Mackenzie's results were advisory mandates to other segments with assets of \$1.9 billion at June 30, 2019 (2018 – \$2.1 billion) and net redemptions of \$235 million for the six months ending June 30, 2019 (2018 – net sales of \$636 million).

– Included in ETFs are mutual fund investments in ETFs totalling \$923 million at June 30, 2019 (2018 – \$750 million) and net sales of \$11 million for the six months ending June 30, 2019 (2018 – \$386 million).

(3) IG Wealth Management and Investment Planning Counsel total AUM and net sales includes separately managed accounts.

(4) During the second quarter of 2018, institutional clients which include Mackenzie mutual funds within their investment offerings made fund allocation changes which resulted in sales of \$381 million, redemptions of \$514 million and net redemptions of \$133 million.

TABLE 8: SUMMARY OF QUARTERLY RESULTS

	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3
Consolidated statements of earnings (\$ millions)								
Revenues								
Management fees	\$ 567.5	\$ 545.2	\$ 546.0	\$ 573.8	\$ 562.8	\$ 556.6	\$ 564.4	\$ 541.9
Administration fees	104.1	101.7	103.3	109.1	107.1	107.6	110.4	109.1
Distribution fees	94.2	89.3	94.4	93.3	89.9	93.3	95.2	89.8
Net investment income and other	46.1	52.9	47.8	55.8	56.2	52.1	36.7	32.5
	811.9	789.1	791.5	832.0	816.0	809.6	806.7	773.3
Expenses								
Commission	275.8	274.7	272.4	270.1	270.1	286.1	288.1	276.0
Non-commission	259.7	274.4	269.0	245.9	252.7	253.1	240.3	238.8
Interest ⁽¹⁾	27.7	25.2	24.1	27.0	28.8	30.3	29.7	28.9
	563.2	574.3	565.5	543.0	551.6	569.5	558.1	543.7
Earnings before undernoted	248.7	214.8	226.0	289.0	264.4	240.1	248.6	229.6
Premium paid on early redemption of debentures	–	–	–	(10.7)	–	–	–	–
Restructuring and other	–	–	–	(22.7)	–	–	(172.3)	–
Proportionate share of associate's one-time loss	(8.0)	–	–	–	–	–	(14.0)	–
Earnings before income taxes	240.7	214.8	226.0	255.6	264.4	240.1	62.3	229.6
Income taxes	55.6	45.1	43.9	55.2	58.5	52.4	9.5	54.0
Net earnings	185.1	169.7	182.1	200.4	205.9	187.7	52.8	175.6
Perpetual preferred share dividends	–	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Net earnings available to common shareholders	\$ 185.1	\$ 167.5	\$ 179.9	\$ 198.2	\$ 203.7	\$ 185.5	\$ 50.6	\$ 173.4
Reconciliation of Non-IFRS financial measures⁽²⁾ (\$ millions)								
Adjusted net earnings available to common shareholders – non-IFRS measure	\$ 193.1	\$ 167.5	\$ 179.9	\$ 222.7	\$ 203.7	\$ 185.5	\$ 191.4	\$ 173.4
Other items:								
Premium paid on early redemption of debentures, net of tax	–	–	–	(7.8)	–	–	–	–
Restructuring and other, net of tax	–	–	–	(16.7)	–	–	(126.8)	–
Proportionate share of associate's one-time loss	(8.0)	–	–	–	–	–	(14.0)	–
Net earnings available to common shareholders – IFRS	\$ 185.1	\$ 167.5	\$ 179.9	\$ 198.2	\$ 203.7	\$ 185.5	\$ 50.6	\$ 173.4
Earnings per Share (¢)								
Adjusted net earnings available to common shareholders ⁽¹⁾								
– Basic	81	70	75	92	85	77	80	72
– Diluted	81	70	75	92	85	77	79	72
Net earnings available to common shareholders								
– Basic	77	70	75	82	85	77	21	72
– Diluted	77	70	75	82	85	77	21	72
Average daily investment fund assets (\$ billions)	\$ 155.7	\$ 149.9	\$ 147.0	\$ 154.0	\$ 150.9	\$ 150.1	\$ 148.1	\$ 142.4
Total investment fund assets under management (\$ billions)	\$ 156.3	\$ 154.3	\$ 143.3	\$ 153.4	\$ 152.5	\$ 149.2	\$ 149.8	\$ 144.6
Total assets under management (\$ billions)	\$ 162.3	\$ 160.5	\$ 149.1	\$ 159.7	\$ 159.1	\$ 155.8	\$ 156.5	\$ 150.0

(1) Interest expense includes interest on long-term debt and in 2019 also includes interest on leases as a result of the Company's adoption of IFRS 16, Leases.

(2) Refer to Non-IFRS Financial Measures and Additional IFRS Measures in this MD&A in addition to the Summary of Consolidated Operating Results section included in the MD&A of the 2018 IGM Financial Inc. Annual Report for an explanation of Other items used to calculate the Company's Non-IFRS financial measures.

IG WEALTH MANAGEMENT

REVIEW OF THE BUSINESS

2019 DEVELOPMENTS

CHANGES TO MUTUAL FUND PRODUCT OFFERING

IG Wealth Management continues to enhance the performance, scope and diversity of our investment offering with the introduction of new funds and other product changes that are well-suited to the long-term diverse needs of Canadian investors.

During 2019, IG Wealth Management has implemented changes to simplify its mutual fund offering with investment fund changes and mergers including:

- Changes to the investment objectives and/or fundamental investment strategies of several funds so that they provide broader investment management diversification opportunities.
- Several fund mergers which are expected to provide investors with a streamlined and simplified product line-up, broaden investment management diversification opportunities and in some cases, may result in lower costs to clients.

FEE TRANSPARENCY FOR ALL CLIENTS AND PRICING CHANGES

IG Wealth Management is delivering on its client-focused commitment by expanding fee transparency while introducing product and pricing changes to accelerate growth.

IG Wealth Management will increase fee transparency by making unbundled solutions available to all client segments commencing later this year. Under unbundled solutions, clients pay an advisory fee to the dealer for its services as opposed to dealer compensation being bundled within mutual fund management fees. To date, IG's unbundled fee option (Series U) has been limited to high net worth clients and has represented over 80% of high net worth client gross sales year to date. Over the coming year, the company will be migrating clients to unbundled solutions and anticipates that most accounts will be migrated to unbundled solutions over the next twenty-four months.

The company has also introduced more competitive pricing to reward client loyalty while encouraging consolidation of our clients' assets with IG Wealth Management and increasing the competitiveness of our products to attract new clients. On March 1, 2019, IG Wealth Management enhanced the competitiveness of pricing to households with over \$1 million in assets with IG Wealth Management through advisory fee reductions across multiple client segments.

IG WEALTH MANAGEMENT STRATEGY

IG Wealth Management's promise is to inspire financial confidence.

Our strategic mandate is to be Canada's financial partner of choice.

Our value proposition is to deliver better Gamma, better Beta and better Alpha:

- Gamma – the value of all efforts that sit outside of investment portfolio construction. This includes the value that a financial advisor adds to a client relationship, and comes from the creation and follow through of a well-constructed financial plan.
- Beta – the value created by well-constructed investment portfolios – achieving expected investment returns for the lowest possible risk.
- Alpha – the value of active management – achieving returns superior to passive benchmarks with a similar composition and risk profile.

We seek to deliver our value proposition through:

- Superior Advice – Acquiring a deep knowledge of Canadian investors and using those insights to shape everything we do.
- Segmented Client Experiences – Creating segmented experiences personalized throughout our clients' lifetimes.
- Entrepreneurial Advisors – Inspiring our entrepreneurial advisors to constantly deliver an engaging experience and a holistic plan that seeks to deliver superior outcomes.
- Powerful Financial Solutions – Providing our clients with a comprehensive suite of well-constructed, high-performing and competitively priced solutions.
- Business processes that are simple, easy and digitized – Re-designing client and advisor interactions to simplify processes, reduce errors, and digitize the experience with an appropriate cost structure.
- Enabled by a high-performing and diverse culture.

GAMMA

THE VALUE OF ALL EFFORTS THAT SIT OUTSIDE OF INVESTMENT PORTFOLIO CONSTRUCTION. THIS INCLUDES THE VALUE THAT A FINANCIAL ADVISOR ADDS TO A CLIENT RELATIONSHIP, AND COMES FROM THE CREATION AND FOLLOW THROUGH OF A WELL-CONSTRUCTED FINANCIAL PLAN.

Entrepreneurial Advisors

IG Wealth Management has a national distribution network of Consultants based in region offices across Canada.

The following provides a breakdown of the IG Wealth Management Consultant network into its significant components at June 30, 2019:

- 1,897 Consultant practices (2,096 at June 30, 2018), which reflect Consultants with more than four years of IG Wealth Management experience. These practices may include Associates as described below. The level of Consultant

practices is a key measurement of our business as they serve clientele representing approximately 95% of AUM.

- 647 New Consultants (807 at June 30, 2018), which are those Consultants with less than four years of IG Wealth Management experience.
- 1,013 Associates and Regional Directors (1,042 at June 30, 2018). Associates are licensed team members of Consultant practices who provide financial planning services and advice to the clientele served by the team.
- IG Wealth Management had a total Consultant network of 3,557 (3,945 at June 30, 2018).

IG Wealth Management's recruiting standards increase the likelihood of success while also enhancing our culture and brand.

Superior Advice

IG Wealth Management requires all Consultants with more than four years of experience to have or be enrolled to achieve the Certified Financial Planner (CFP) or its Quebec equivalent, Financial Planner (F.Pl.) designations. The CFP and F.Pl. designations are nationally recognized financial planning qualifications that require an individual to demonstrate financial planning competence through education, standardized examinations, continuing education requirements, and accountability to ethical standards. The Financial Planning Standards Council published in 2018 that IG Wealth Management tied for first in terms of the number of CFP designation holders.

IG Wealth Management also supports Consultants and clients through its network of product and planning specialists who assist in the areas of advanced financial planning, mortgages and banking, insurance, and securities. These specialists provide support in ensuring that we are offering the very best in financial planning and providing plans that are comprehensive across all elements of a client's financial life. Our specialist complement also includes wealth planning specialists who are IIROC-licensed and ensure that the same level of comprehensive advice on direct securities is available to clients who are served by both our Mutual Fund Dealers Association of Canada (MFDA) and Investment Industry Regulatory Organization of Canada (IIROC) licensed Consultants. Clients of our MFDA and IIROC licensed Consultants have access to the same product and service offering.

Segmented Client Experiences

IG Wealth Management distinguishes itself from its competition by offering comprehensive planning to its clients within the context of long-term relationships. The value of this approach is illustrated through independent studies demonstrating that households receiving advice from a financial advisor have greater wealth than non-advised households, and that this advantage increases based on the length of the relationship with the financial advisor.

IG Living Plan™ is a holistic, client-centric approach to financial planning that reflects the evolving needs, goals and aspirations of Canadian families and individuals. The IG Living Plan provides a single, integrated view of all aspects of a client's finances including retirement and estate planning, investments and tax strategies, creating a truly synchronized and comprehensive plan.

The IG Living Plan leverages the experience and expertise of IG Wealth Management's Consultants who serve approximately one million clients located in communities throughout Canada.

IG Wealth Management has a full range of products that allow us to provide a tailored IG Living Plan that evolves over time.

These products include:

- Powerful financial solutions that include investment vehicles that match risk and investment performance to each client's needs and requirements.
- Insurance products that include a variety of different policy types from the leading insurers in Canada.
- Mortgage and Banking to develop mortgage and other lending strategies that meet the individual needs and goals of each client as part of their comprehensive financial plan.
- Charitable Giving Program, a donor-advised giving program which enables Canadians to make donations and build an enduring charitable giving legacy with considerably less expense and complexity than setting up and administering their own private foundation.

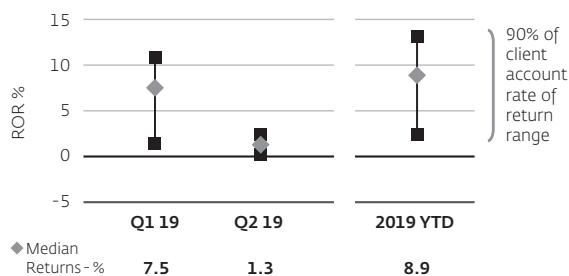
IG Wealth Management has long believed that providing our clients with personal account level performance and rate of return information over multiple time periods is a meaningful benefit to our clients and further demonstrates the value provided through advice over the history of our client relationships. Our clients' statements include a multiple-period view of their performance, including one year, three year and five year rates of return.

Communication with our clients includes regular reporting of their IG Wealth Management investment fund holdings and the change in asset values of these holdings. Individual clients experience different returns as a result of having different composition of their portfolios in each quarter as illustrated on the accompanying charts. The first chart reflects in-quarter client account median rates of return for the current year. The second chart reflects the client account median rates of return based on one, three and five year timeframes as at June 30, 2019. Both charts also illustrate upper and lower ranges of rates of return around the median for 90% of IG Wealth Management client accounts.

For the three and six month periods ended June 30, 2019, the client account median rate of return was approximately 1.3% and 8.9%, respectively.

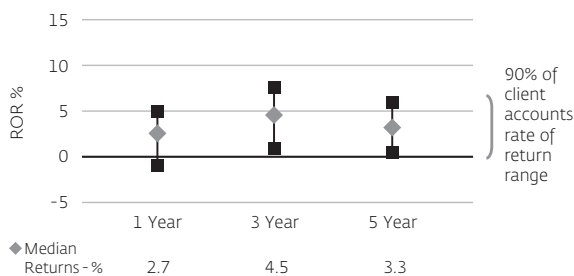
Client Account Rate of Return (ROR) Experience

Quarterly and year to date returns



Client Account Compound Annual ROR Experience

As at June 30, 2019



Business Processes

Administrative support for Consultants and clients includes timely and accurate client account record-keeping and reporting, effective problem resolution support, and continuous improvements to servicing systems.

This administrative support is provided for Consultants and clients from both IG Wealth Management's head office in Winnipeg, Manitoba and IG Wealth Management's Quebec General Office located in Montreal for Consultants and clients residing in Quebec. The Quebec General Office has approximately 175 employees and operating units for most functions supporting approximately 770 Consultants throughout Quebec. Mutual fund assets under management in Quebec were approximately \$16 billion as at June 30, 2019.

Enabled by a High-Performing and Diverse Culture

IG Wealth Management has established a high-performing and diverse culture to allow employees and Consultants to achieve maximum results. Gallup and other surveys are utilized to ensure that employees and Consultants are fully engaged and have the resources required to excel.

BETA AND ALPHA

BETA — THE VALUE CREATED BY WELL-CONSTRUCTED INVESTMENT PORTFOLIOS — ACHIEVING EXPECTED INVESTMENT RETURNS FOR THE LOWEST POSSIBLE RISK.

ALPHA — THE VALUE OF ACTIVE MANAGEMENT — ACHIEVING RETURNS SUPERIOR TO PASSIVE BENCHMARKS WITH A SIMILAR COMPOSITION AND RISK PROFILE.

IG Wealth Management strives to provide Beta and Alpha through the selection of its global sub-advisors. The use of sub-advisors allow us to provide clients with products that provide diversification and global reach.

New Products

IG Wealth Management continues to enhance the performance, scope and diversity of our investment offering with the introduction of new funds and other product changes that are well-suited to the long-term diverse needs of Canadian investors.

Powerful Financial Solutions

IG Wealth Management provides a wide range of investment and other financial solutions that enable clients to achieve their goals.

Clients can diversify their holdings across investment managers, asset categories, investment styles, geography, capitalization and sectors through portfolios customized to meet their objectives.

IG Wealth Management monitors its investment performance by comparing to certain benchmarks. Morningstar¹ fund ranking service is one of the rankings monitored when determining fund performance.

At June 30, 2019, 55.0% of IG Wealth Management mutual funds had a rating of three stars or better from the Morningstar¹ fund ranking service and 16.5% had a rating of four or five stars. This compared to the Morningstar¹ universe of 68.5% for three stars or better and 34.1% for four and five star funds at June 30, 2019. Morningstar Ratings¹ are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds.

ASSETS UNDER MANAGEMENT

At June 30, 2019, IG Wealth Management's mutual fund assets under management were \$90.2 billion, an all-time quarter end high. The level of assets under management is influenced by three factors: sales, redemptions and investment returns of our funds. Changes in mutual fund assets under management for the periods under review are reflected in Table 9.

TABLE 9: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2019 JUN. 30	2019 MAR. 31	2018 JUN. 30	% CHANGE	
				2019 MAR. 31	2018 JUN. 30
Sales	\$ 2,045	\$ 2,350	\$ 2,084	(13.0) %	(1.9) %
Redemptions	2,582	2,364	2,194	9.2	17.7
Net sales (redemptions)	(537)	(14)	(110)	N/M	N/M
Investment returns	1,302	6,288	1,769	(79.3)	(26.4)
Net change in assets	765	6,274	1,659	(87.8)	(53.9)
Beginning assets	89,411	83,137	87,103	7.5	2.6
Ending assets	\$ 90,176	\$ 89,411	\$ 88,762	0.9 %	1.6 %
Average daily assets	\$ 90,158	\$ 86,989	\$ 87,999	3.6 %	2.5 %

SIX MONTHS ENDED (\$ millions)	2019 JUN. 30	2018 JUN. 30	% CHANGE
Sales	\$ 4,395	\$ 4,943	(11.1) %
Redemptions	4,946	4,269	15.9
Net sales (redemptions)	(551)	674	N/M
Investment returns	7,590	80	N/M
Net change in assets	7,039	754	N/M
Beginning assets	83,137	88,008	(5.5)
Ending assets	\$ 90,176	\$ 88,762	1.6 %
Average daily assets	\$ 88,582	\$ 87,909	0.8 %

HIGH NET WORTH OFFERINGS

IG Wealth Management has several offerings to address the needs of high net worth clients, which represent a growing segment of our client base, and continues to look at ways to provide further offerings to this segment. Assets under management for clients in this category totalled \$46.7 billion at June 30, 2019, an increase of 8.7% from one year ago, and represented 51.8% of total assets under management. Sales of high net worth solutions totalled \$1.1 billion for the second quarter of 2019 and represented 52% of total sales up from 44% in 2018. For the six month period, sales of high net worth solutions totalled \$2.1 billion and represented 49% of total sales up from 43% in 2018.

- Series U is currently available for households with investments in IG Wealth Management funds in excess of \$500,000 and provides a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At June 30, 2019, Series U assets under management had increased to \$19.0 billion, compared to \$16.6 billion at June 30, 2018, an increase of 14.4%.
- iProfile™ – is a unique portfolio management program that is available for households with investments held at IG Wealth

Management in excess of \$250,000. The iProfile program has a pricing structure which separates the advisory fee, which is charged directly to a client's account, from the fees charged to the underlying investment funds. At June 30, 2019, the iProfile program assets under management were \$12.3 billion, an increase of 62.8% from \$7.6 billion at June 30, 2018.

- Series J is available for households with investments in IG Wealth Management funds in excess of \$500,000 and had assets of \$15.4 billion at June 30, 2019, a decrease of 18.1% from \$18.8 billion at June 30, 2018, largely as a result of transfer activity from Series J to Series U. Series J pricing structure bundles the cost of asset management and advice into one fee.

Unbundled Fee Structures

A growing portion of IG Wealth Management's client assets are in Series U and iProfile, which are products with unbundled fee structures where a separate advisory fee is charged to the client account by the dealer. At June 30, 2019, \$31.3 billion, or 34.7% of IG Wealth Management's mutual fund assets under management, were in products with unbundled fee structures, up 29.6% from \$24.2 billion at June 30, 2018 which represented 27.2% of assets under management. Sales of these products

to high net worth clients totalled \$886 million for the second quarter of 2019, an increase of \$210 million from the second quarter of 2018, representing 84% of total high net worth sales and 43% of total mutual fund sales. For the six months ended June 30, 2019, sales totalled \$1.7 billion, an increase of \$0.2 billion from 2018, representing 80% of total high net worth sales and 39% of total mutual fund sales.

In 2019, the Company will begin migrating all clients to unbundled fee products, which separate the advisory fee that is charged directly to a client's account from the fees charged to the underlying investment funds. Following this transition, IG Wealth Management will discontinue offering bundled purchase options for investment funds.

CHANGE IN ASSETS UNDER MANAGEMENT – 2019 VS. 2018

IG Wealth Management's mutual fund assets under management were \$90.2 billion at June 30, 2019, representing an increase of 1.6% from \$88.8 billion at June 30, 2018. Average daily mutual fund assets were \$90.2 billion in the second quarter of 2019, up 2.5% from \$88.0 billion in the second quarter of 2018. Average daily mutual fund assets were \$88.6 billion for the six months ended June 30, 2019, up 0.8% from \$87.9 billion in 2018.

For the quarter ended June 30, 2019, sales of IG Wealth Management mutual funds through its Consultant network were \$2.0 billion, a decrease of 1.9% from the comparable period in 2018. Mutual fund redemptions totalled \$2.6 billion, an increase of 17.7% from 2018. IG Wealth Management mutual fund net redemptions for the second quarter of 2019 were \$537 million compared with net redemptions of \$110 million in 2018. During the second quarter, investment returns resulted in an increase of \$1.3 billion in mutual fund assets compared to an increase of \$1.8 billion in the second quarter of 2018.

IG Wealth Management's annualized quarterly redemption rate for long-term funds was 10.9% in the second quarter of 2019, compared to 9.3% in the second quarter of 2018. IG Wealth Management's twelve month trailing redemption rate for long-term funds was 9.9% at June 30, 2019, compared to 8.6% at June 30, 2018, and remains well below the corresponding average redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) of approximately 17.2% at June 30, 2019.

For the six months ended June 30, 2019, sales of IG Wealth Management mutual funds through its Consultant network were \$4.4 billion, a decrease of 11.1% from 2018. Mutual fund redemptions totalled \$4.9 billion, an increase of 15.9% from 2018. Net redemptions of IG Wealth Management mutual funds were \$551 million compared with net sales of \$674 million in

2018. During 2019, investment returns resulted in an increase of \$7.6 billion in mutual fund assets compared to an increase of \$80 million in 2018.

CHANGE IN ASSETS UNDER MANAGEMENT – Q2 2019 VS. Q1 2019

IG Wealth Management's mutual fund assets under management were \$90.2 billion at June 30, 2019, an increase of 0.9% from \$89.4 billion at March 31, 2019. Average daily mutual fund assets were \$90.2 billion in the second quarter of 2019 compared to \$87.0 billion in the first quarter of 2019, an increase of 3.6%.

For the quarter ended June 30, 2019, sales of IG Wealth Management mutual funds through its Consultant network were \$2.0 billion, a decrease of 13.0% from the first quarter of 2019. Mutual fund redemptions, which totalled \$2.6 billion for the second quarter, increased 9.2% from the previous quarter and the annualized quarterly redemption rate was 10.9% in the second quarter compared to 10.4% in the first quarter of 2019. IG Wealth Management mutual fund net redemptions were \$537 million for the current quarter compared to net redemptions of \$14 million in the previous quarter.

OTHER PRODUCTS AND SERVICES

SEGREGATED FUNDS

IG Wealth Management offers segregated funds which include the IG Series of Guaranteed Investment Funds (GIFs). Select GIF policies allow for a Lifetime Income Benefit (LIB) option to provide guaranteed retirement income for life. The investment components of these segregated funds are managed by IG Wealth Management. At June 30, 2019, total segregated fund assets were \$1.7 billion, compared to \$1.8 billion at June 30, 2018.

INSURANCE

IG Wealth Management distributes insurance products through I.G. Insurance Services Inc. The average number of policies sold by each insurance-licensed Consultant was 2.8 for the quarter ended June 30, 2019, compared to 2.3 in 2018. For the six months ended June 30, 2019, the average number of policies sold by each insurance-licensed Consultant was 5.0, compared to 4.6 in 2018. Distribution of insurance products is enhanced through IG Wealth Management's Insurance Planning Specialists, located throughout Canada, who assist Consultants with advanced estate planning solutions for high net worth clients.

SECURITIES OPERATIONS

Investors Group Securities Inc. is an investment dealer registered in all Canadian provinces and territories providing clients with

securities services to complement their financial and investment planning. IG Wealth Management Consultants can refer clients to one of our Wealth Planning Specialists available through Investors Group Securities Inc. In addition, there are a growing number of IIROC licensed Consultants using this platform.

MORTGAGE AND BANKING OPERATIONS

IG Wealth Management Mortgage Planning Specialists are located throughout each province in Canada, and work with our clients and their Consultants to develop mortgage and other lending strategies that meet the individual needs and goals of each client as part of their comprehensive financial plan.

Mortgages are offered to clients by IG Wealth Management, a national mortgage lender, and through IG Wealth Management's Solutions Banking[†], provided by National Bank of Canada under a long-term distribution agreement. An All-in-One product, a comprehensive cash management solution that integrates the features of a mortgage, term loan, revolving line of credit and deposit account, is also offered through Solutions Banking[†].

Mortgage fundings offered through IG Wealth Management and through Solutions Banking[†] for the three and six months ended June 30, 2019 were \$341 million and \$544 million compared to \$393 million and \$588 million in 2018, a decrease of 13.2% and

7.6%, respectively. At June 30, 2019, mortgages offered through both sources totalled \$10.6 billion, compared to \$10.7 billion at June 30, 2018, a decrease of 1.5%.

Available credit associated with Solutions Banking[†] All-in-One accounts originated for the three and six month periods ended June 30, 2019 were \$188 million and \$323 million, respectively, compared to \$283 million and \$483 million in 2018. At June 30, 2019, the balance outstanding of Solutions Banking[†] All-in-One products was \$2.7 billion, compared to \$2.4 billion one year ago, and represented approximately 50% of total available credit associated with these accounts.

Other products and services offered through IG Wealth Management's Solutions Banking[†] include investment loans, lines of credit, personal loans, creditor insurance, deposit accounts, and credit cards. Through Solutions Banking[†], clients have access to a network of banking machines, as well as a private labeled client website and client service centre. The Solutions Banking[†] offering supports IG Wealth Management's approach to delivering total financial solutions for our clients through a broad financial planning platform. Total lending products of IG Wealth Management clients in the Solutions Banking[†] offering, including Solutions Banking[†] mortgages totalled \$4.3 billion at June 30, 2019, compared to \$3.8 billion at June 30, 2018.

REVIEW OF SEGMENT OPERATING RESULTS

IG Wealth Management's earnings before interest and taxes are presented in Table 10.

2019 VS. 2018

FEE INCOME

Fee income is generated from the management, administration and distribution of IG Wealth Management mutual funds. The distribution of insurance and Solutions Banking[†] products and the provision of securities services provide additional fee income.

IG Wealth Management earns management fees for investment management services provided to its mutual funds, which depend largely on the level and composition of mutual fund assets under management. Management fees were \$371.9 million in the second quarter of 2019, an increase of \$6.1 million or 1.7% from \$365.8 million in 2018. For the six months ended June 30, 2019, management fees were \$730.1 million, an increase of \$3.5 million or 0.5% from \$726.6 million in 2018.

The net increase in management fees in the second quarter of 2019 was primarily due to the increase in average assets under management of 2.5%, as shown in Table 9. The average management fee rate for the second quarter was 165.9 basis points of average assets under management compared to 166.7 basis points in 2018, reflecting pricing reductions effective March 1, 2019.

The net increase in management fees in the six months ended June 30, 2019 was primarily due to the increase in average assets under management of 0.8%, as shown in Table 9. The average management fee rate for the six months ended June 30, 2019, was 166.5 basis points of average assets under management compared to 166.7 basis points in 2018, reflecting pricing reductions effective March 1, 2019.

IG Wealth Management receives administration fees for providing administrative services to its mutual funds and trusteeship services to its unit trust mutual funds, which also depend largely on the level and composition of mutual fund assets under management. Administration fees totalled \$75.2 million in the current quarter compared to \$77.5 million a year ago, a decrease of 3.0%. Administration fees were \$149.1 million for the six month period ended June 30, 2019 compared to \$155.6 million in 2018, a decrease of 4.2%. These decreases resulted primarily from the movement of assets into unbundled products which are not charged certain administration fees and changes in the composition of average assets under management.

Distribution fees are earned from:

- Distribution of insurance products through I.G. Insurance Services Inc.

- Redemption fees on mutual funds that were sold with a deferred sales charge.
- Portfolio fund distribution fees.
- Securities trading services provided through Investors Group Securities Inc.
- Banking services provided through Solutions Banking[†].

Distribution fee income of \$44.6 million for the second quarter of 2019 increased by \$4.1 million from \$40.5 million in 2018. For the six month period, distribution fee income of \$85.7 million increased by \$1.9 million from \$83.8 million in 2018. The increase in the three and six month periods was primarily due to the increase in distribution fee income from insurance products offset by lower redemption fees. IG Wealth Management no longer offers the deferred sales purchase option for its mutual funds. Redemption fee income varies depending on the level of deferred sales charge attributable to fee-based redemptions.

NET INVESTMENT INCOME AND OTHER

Net investment income and other includes income related to mortgage banking operations and net interest income related to intermediary operations.

Net investment income and other was \$13.6 million in the second quarter of 2019, an increase of \$1.5 million from \$12.1 million in 2018. For the six months ended June 30, 2019, net investment income and other totalled \$23.6 million, an increase of \$1.2 million from \$22.4 million in 2018.

Net investment income related to IG Wealth Management's mortgage banking operations totalled \$11.4 million for the second quarter of 2019 compared to \$10.7 million in 2018, an increase of \$0.7 million. For the six months ended June 30, 2019, net investment income related to IG Wealth Management's mortgage banking operations totalled \$18.7 million compared to \$19.6 million in 2018, a decrease of \$0.9 million. A summary of mortgage banking operations for the three and six month periods under review is presented in Table 11.

EXPENSES

IG Wealth Management incurs commission expense in connection with the distribution of its financial services and products. Commissions are paid on the sale of these products and fluctuate with the level of sales. Commissions paid on the sale of investment products are capitalized and amortized over their estimated useful lives where the Company receives a fee directly from the client. All other commissions paid on investment product sales are expensed as incurred.

Commission expense was \$54.7 million for the second quarter of 2019, a decrease of \$1.6 million from \$56.3 million in 2018. For the six month period, commission expense was \$112.5 million,

TABLE 10: OPERATING RESULTS – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2019	2019	2018	% CHANGE	
	JUN. 30	MAR. 31	JUN. 30	2019 MAR. 31	2018 JUN. 30
Revenues					
Management fees	\$ 371.9	\$ 358.2	\$ 365.8	3.8 %	1.7 %
Administration fees	75.2	73.9	77.5	1.8	(3.0)
Distribution fees	44.6	41.1	40.5	8.5	10.1
	491.7	473.2	483.8	3.9	1.6
Net investment income and other	13.6	10.0	12.1	36.0	12.4
	505.3	483.2	495.9	4.6	1.9
Expenses					
Commission					
Commission amortization	5.2	4.8	3.4	8.3	52.9
Mutual fund sales commissions expensed as incurred	16.9	23.4	24.5	(27.8)	(31.0)
Other commissions	32.6	29.6	28.4	10.1	14.8
	54.7	57.8	56.3	(5.4)	(2.8)
Asset-based compensation	102.8	99.2	95.3	3.6	7.9
Non-commission	152.9	162.9	146.9	(6.1)	4.1
	310.4	319.9	298.5	(3.0)	4.0
Earnings before interest and taxes	\$ 194.9	\$ 163.3	\$ 197.4	19.4 %	(1.3) %
SIX MONTHS ENDED (\$ millions)					
			2019 JUN. 30	2018 JUN. 30	% CHANGE
Revenues					
Management fees			\$ 730.1	\$ 726.6	0.5 %
Administration fees			149.1	155.6	(4.2)
Distribution fees			85.7	83.8	2.3
			964.9	966.0	(0.1)
Net investment income and other			23.6	22.4	5.4
			988.5	988.4	—
Expenses					
Commission					
Commission amortization			10.0	6.3	58.7
Mutual fund sales commissions expensed as incurred			40.3	60.4	(33.3)
Other commissions			62.2	58.8	5.8
			112.5	125.5	(10.4)
Asset-based compensation			202.0	190.9	5.8
Non-commission			315.8	291.6	8.3
			630.3	608.0	3.7
Earnings before interest and taxes			\$ 358.2	\$ 380.4	(5.8) %

TABLE 11: MORTGAGE BANKING OPERATIONS – IG WEALTH MANAGEMENT

THREE MONTHS ENDED (\$ millions)	2019	2019	2018	% CHANGE	
	JUN. 30	MAR. 31	JUN. 30	2019 MAR. 31	2018 JUN. 30
Total mortgage banking income					
Net interest income on securitized loans					
Interest income	\$ 52.5	\$ 52.6	\$ 50.9	(0.2) %	3.1 %
Interest expense	43.6	44.1	41.3	(1.1)	5.6
Net interest income	8.9	8.5	9.6	4.7	(7.3)
Gains on sales ⁽¹⁾	1.4	0.3	0.7	N/M	100.0
Fair value adjustments	(1.7)	(3.5)	(1.9)	51.4	10.5
Other	2.8	2.0	2.3	40.0	21.7
	\$ 11.4	\$ 7.3	\$ 10.7	56.2 %	6.5 %
Average mortgages serviced					
Securitizations	\$ 7,346	\$ 7,402	\$ 7,487	(0.8) %	(1.9) %
Other	2,778	2,855	3,153	(2.7)	(11.9)
	\$ 10,124	\$ 10,257	\$ 10,640	(1.3) %	(4.8) %
Mortgage sales to: ⁽²⁾					
Securitizations	\$ 327	\$ 437	\$ 364	(25.2) %	(10.2) %
Other ⁽¹⁾	71	66	105	7.6	(32.4)
	\$ 398	\$ 503	\$ 469	(20.9) %	(15.1) %
SIX MONTHS ENDED (\$ millions)	2019 JUN. 30	2018 JUN. 30	% CHANGE		
Total mortgage banking income					
Net interest income on securitized loans					
Interest income			\$ 105.1	\$ 101.2	3.9 %
Interest expense			87.7	81.2	8.0
Net interest income			17.4	20.0	(13.0)
Gains on sales ⁽¹⁾			1.7	1.5	13.3
Fair value adjustments			(5.2)	(5.8)	10.3
Other			4.8	3.9	23.1
			\$ 18.7	\$ 19.6	(4.6) %
Average mortgages serviced					
Securitizations			\$ 7,374	\$ 7,508	(1.8) %
Other			2,817	3,194	(11.8)
			\$ 10,191	\$ 10,702	(4.8) %
Mortgage sales to: ⁽²⁾					
Securitizations			\$ 764	\$ 743	2.8 %
Other ⁽¹⁾			137	201	(31.8)
			\$ 901	\$ 944	(4.6) %

(1) Represents sales to institutional investors through private placements, to Investors Mortgage and Short Term Income Fund, and to Investors Canadian Corporate Bond Fund as well as gains realized on those sales.

(2) Represents principal amounts sold.

a decrease of \$13.0 million from \$125.5 million in 2018. The decrease in mutual fund commissions was due to lower mutual fund sales partially offset by higher compensation related to the distribution of insurance products.

Asset-based compensation, which is based on the value of assets under management, increased by \$7.5 million and \$11.1 million for the three and six month periods ended June 30, 2019 to \$102.8 million and \$202.0 million, compared to 2018. The increase was primarily due to the increase in assets under management.

Non-commission expenses incurred by IG Wealth Management primarily relate to the support of the Consultant network, the administration, marketing and management of its mutual funds and other products, as well as sub-advisory fees related to mutual fund assets under management. Non-commission expenses were \$152.9 million for the second quarter of 2019 compared to \$146.9 million in 2018, an increase of \$6.0 million or 4.1%. For the six month period, non-commission expenses were \$315.8 million in 2019 compared to \$291.6 million in 2018, an increase of \$24.2 million or 8.3%. The increase for the six months was primarily due to increased technology expenses in the first quarter relating to the migration of clients to our new dealer platform and unbundled fee arrangements, as well as continued expenses associated with the brand re-launch.

Q2 2019 VS. Q1 2019

FEE INCOME

Management fee income increased by \$13.7 million or 3.8% to \$371.9 million in the second quarter of 2019 compared with the first quarter of 2019. The increase in management fees in the second quarter was primarily due to the increase in average assets under management of 3.6% for the quarter, as shown in Table 9 and the increase of approximately \$3.3 million

resulting from one additional calendar day in the second quarter compared to the first quarter of 2019.

Administration fees increased to \$75.2 million in the second quarter of 2019 from \$73.9 million in the first quarter of 2019. This increase resulted primarily from the increase in assets under management.

Distribution fee income of \$44.6 million in the second quarter of 2019 increased by \$3.5 million from \$41.1 million in the first quarter primarily due to an increase in distribution fee income from insurance product sales.

NET INVESTMENT INCOME AND OTHER

Net investment income and other was \$13.6 million in the second quarter of 2019 compared to \$10.0 million in the previous quarter, an increase of \$3.6 million.

Net investment income related to IG Wealth Management's mortgage banking operations totalled \$11.4 million in the second quarter of 2019, an increase of \$4.1 million from \$7.3 million in the previous quarter as shown in Table 11.

EXPENSES

Commission expense in the current quarter was \$54.7 million compared with \$57.8 million in the previous quarter. The decrease related primarily to lower cash commissions paid being expensed in the quarter primarily due to lower mutual fund sales offset in part by higher compensation related to the distribution of insurance product sales.

Non-commission expenses decreased to \$152.9 million in the current quarter compared to \$162.9 million in the prior quarter primarily due to elevated expenses during the first quarter relating to technology initiatives and brand re-launch.

MACKENZIE INVESTMENTS

REVIEW OF THE BUSINESS

MACKENZIE STRATEGY

Mackenzie seeks to be Canada's preferred global asset management solutions provider and business partner.

Mackenzie's vision: We are committed to the financial success of investors, through *their* eyes. This impacts the strategic priorities we select to fulfil that commitment and drive future business growth. Our strategic mandate is two-fold: win in the Canadian retail space and build meaningful strategic relationships. We aim to achieve this mandate by attracting and fostering the best minds in the investment industry, responding to changing needs of financial advisors and investors with distinctive and innovative solutions, and continuing to deliver institutional quality in everything we do.

Supporting this vision and strategic mandate are six key foundational capabilities that our employees strive to achieve:

- Delivering competitive and consistent risk-adjusted performance
- Offering innovative and high quality investment solutions
- Accelerating distribution
- Advancing brand leadership
- Driving operational excellence and discipline
- Enabling a high-performing and diverse culture

Mackenzie seeks to maximize returns on business investment by focusing resources in areas that directly impact the success of our strategic mandate: investment management, distribution and client experience.

Founded in 1967, Mackenzie continues to build an investment advisory business through proprietary investment research and portfolio management while utilizing strategic partners in a selected sub-advisory capacity. Our business focuses on multiple distribution channels: Retail, Strategic Alliances and Institutional.

Mackenzie primarily distributes its retail investment products through third party financial advisors. Mackenzie's sales teams work with many of the more than 30,000 independent financial advisors and their firms across Canada. In addition to its retail distribution team, Mackenzie also has specialty teams focused on strategic alliances and the institutional marketplace. Within the strategic alliance channel, Mackenzie offers certain series of its mutual funds and provides sub-advisory services to third party and related party investment programs offered by banks, insurance companies and other investment companies. Strategic alliances with related parties include providing advisory services to IG Wealth Management, Investment Planning Counsel and Great-West Lifeco Inc. (Lifeco) subsidiaries, and also include a private label mutual fund arrangement with Lifeco subsidiary Quadrus. Within the strategic alliance channel, Mackenzie's

primary distribution relationship is with the head office of the respective bank, insurance company or investment company. In the institutional channel, Mackenzie provides investment management services to pension plans, foundations and other institutions. Mackenzie attracts new institutional business through its relationships with pension and management consultants.

Gross sales and redemption activity in strategic alliance and institutional accounts can be more pronounced than in the retail channel given the relative size and the nature of the distribution relationships of these accounts. These accounts are also subject to ongoing reviews and rebalance activities which may result in a significant change in the level of assets under management.

Mackenzie is positioned to continue to build and enhance its distribution relationships given its team of experienced investment professionals, strength of its distribution network, broad product shelf, competitively priced products and its focus on client experience and investment excellence.

ASSETS UNDER MANAGEMENT

The changes in investment fund assets under management are summarized in Table 12 and the changes in total assets under management are summarized in Table 13.

At June 30, 2019, Mackenzie's investment fund assets under management were \$61.4 billion, an all-time high, and total assets under management were \$68.6 billion. The change in Mackenzie's assets under management is determined by investment returns generated for our clients and net contributions from our clients.

FUND PERFORMANCE

Long-term investment performance is a key measure of Mackenzie's ongoing success. At June 30, 2019, 63.0% of Mackenzie mutual fund assets were rated in the top two performance quartiles for the one year time frame, 52.8% for the three year time frame and 56.7% for the five year time frame. Mackenzie also monitors its fund performance relative to the ratings it receives on its mutual funds from the Morningstar¹ fund ranking service. At June 30, 2019, 74.3% of Mackenzie mutual fund assets measured by Morningstar¹ had a rating of three stars or better and 46.5% had a rating of four or five stars. This compared to the Morningstar¹ universe of 81.0% for three stars or better and 47.6% for four and five star funds at June 30, 2019. These ratings exclude the Quadrus Group of Funds¹.

CHANGES TO PRODUCT OFFERINGS

Mackenzie continues to evolve its product shelf by providing enhanced investment solutions for financial advisors to offer their clients.

TABLE 12: CHANGE IN INVESTMENT FUND ASSETS UNDER MANAGEMENT – MACKENZIE⁽¹⁾

THREE MONTHS ENDED (\$ millions)	2019 JUN. 30	2019 MAR. 31	2018 JUN. 30	% CHANGE	
				2019 MAR. 31	2018 JUN. 30
Sales	\$ 2,541	\$ 2,505	\$ 2,741	1.4 %	(7.3) %
Redemptions	2,334	2,357	2,711	(1.0)	(13.9)
Mutual fund net sales (redemptions) ⁽²⁾	207	148	30	39.9	N/M
ETF net creations	88	228	570	(61.4)	(84.6)
Inter-product eliminations	(11)	–	(153)	N/M	92.8
Investment fund net sales (redemptions)⁽³⁾	284	376	447	(24.5)	(36.5)
Investment returns	985	4,242	1,251	(76.8)	(21.3)
Net change in assets	1,269	4,618	1,698	(72.5)	(25.3)
Beginning assets	60,126	55,508	56,994	8.3	5.5
Ending assets	\$ 61,395	\$ 60,126	\$ 58,692	2.1 %	4.6 %
Consists of:					
Mutual funds	\$ 58,864	\$ 57,694	\$ 56,842	2.0 %	3.6 %
ETFs	3,454	3,330	2,600	3.7	32.8
Inter-product eliminations	(923)	(898)	(750)	(2.8)	(23.1)
Investment funds ⁽³⁾	\$ 61,395	\$ 60,126	\$ 58,692	2.1 %	4.6 %
Daily average investment fund assets	\$ 60,781	\$ 58,184	\$ 57,913	4.5 %	5.0 %

SIX MONTHS ENDED (\$ millions)	2019 JUN. 30	2018 JUN. 30	% CHANGE
Sales	\$ 5,046	\$ 5,371	(6.1) %
Redemptions	4,691	5,055	(7.2)
Mutual fund net sales (redemptions) ⁽²⁾	355	316	12.3
ETF net creations	316	1,285	(75.4)
Inter-product eliminations	(11)	(386)	97.2
Investment fund net sales (redemptions)⁽³⁾	660	1,215	(45.7)
Investment returns	5,227	934	N/M
Net change in assets	5,887	2,149	173.9
Beginning assets	55,508	56,543	(1.8)
Ending assets	\$ 61,395	\$ 58,692	4.6 %
Daily average investment fund assets	\$ 59,490	\$ 57,494	3.5 %

(1) Mackenzie segment excludes investments into Mackenzie mutual funds by IG Wealth Management mutual funds from its assets under management and net sales.

(2) During the second quarter of 2018, third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in sales of \$381 million, redemptions of \$514 million and net redemptions of \$133 million.

(3) Total investment fund net sales and assets under management exclude Mackenzie mutual fund investments in ETFs.

Exchange Traded Funds

The addition of Exchange Traded Funds (ETF) has complemented Mackenzie's broad and innovative fund line-up and reflects its investor-focused vision to provide advisors and investors with new solutions to drive investor outcomes and achieve their personal goals. These ETFs offer investors another investment option to utilize in building long-term diversified portfolios. Mackenzie's current line-up consists of twenty-eight ETFs:

fifteen active and strategic beta ETFs and thirteen traditional index ETFs. Since the launch in April 2016, Mackenzie's ETF assets under management have grown to \$3.5 billion at the end of June 30, 2019, an all-time high, inclusive of \$923 million in investments from Mackenzie mutual funds. This ranks Mackenzie in eighth place in the Canadian ETF industry for assets under management.

TABLE 13: CHANGE IN TOTAL ASSETS UNDER MANAGEMENT – MACKENZIE⁽¹⁾

THREE MONTHS ENDED (\$ millions)	% CHANGE				
	2019 JUN. 30	2019 MAR. 31	2018 JUN. 30	2019 MAR. 31	2018 JUN. 30
Net sales (redemptions)					
Mutual funds ⁽²⁾	\$ 207	\$ 148	\$ 30	39.9 %	N/M %
ETF net creations	88	228	570	(61.4)	(84.6)
Inter-product eliminations	(11)	–	(153)	N/M	92.8
Investment funds ⁽³⁾	284	376	447	(24.5)	(36.5)
Sub-advisory, institutional and other accounts	(534)	(103)	(97)	N/M	N/M
Total net sales (redemptions)	(250)	273	350	N/M	N/M
Investment returns	1,082	4,775	1,442	(77.3)	(25.0)
Net change in assets	832	5,048	1,792	(83.5)	(53.6)
Beginning assets	67,776	62,728	65,161	8.0	4.0
Ending assets	\$ 68,608	\$ 67,776	\$ 66,953	1.2 %	2.5 %
Consists of:					
Mutual funds	\$ 58,864	\$ 57,694	\$ 56,842	2.0 %	3.6 %
ETFs	3,454	3,330	2,600	3.7	32.8
Inter-product eliminations	(923)	(898)	(750)	(2.8)	(23.1)
Investment funds ⁽³⁾	61,395	60,126	58,692	2.1	4.6
Sub-advisory, institutional and other accounts	7,213	7,650	8,261	(5.7)	(12.7)
Total assets under management	\$ 68,608	\$ 67,776	\$ 66,953	1.2 %	2.5 %
Average total assets⁽⁴⁾	\$ 68,194	\$ 65,613	\$ 66,116	3.9 %	3.1 %

SIX MONTHS ENDED (\$ millions)	% CHANGE		
	2019 JUN. 30	2018 JUN. 30	
Net sales (redemptions)			
Mutual funds ⁽²⁾	\$ 355	\$ 316	12.3 %
ETF net creations	316	1,285	(75.4)
Inter-product eliminations	(11)	(386)	97.2
Investment funds ⁽³⁾	660	1,215	(45.7)
Sub-advisory, institutional and other accounts	(637)	132	N/M
Total net sales (redemptions)	23	1,347	(98.3)
Investment returns	5,857	1,097	N/M
Net change in assets	5,880	2,444	140.6
Beginning assets	62,728	64,509	(2.8)
Ending assets	\$ 68,608	\$ 66,953	2.5 %
Average total assets⁽⁴⁾	\$ 66,878	\$ 65,679	1.8 %

(1) Mackenzie segment excludes investments into Mackenzie mutual funds by IG Wealth Management mutual funds from its assets under management and net sales.

(2) During the second quarter of 2018, third party programs which include Mackenzie mutual funds made fund allocation changes which resulted in sales of \$381 million, redemptions of \$514 million and net redemptions of \$133 million.

(3) Total investment fund net sales and assets under management exclude Mackenzie mutual fund investments in ETFs.

(4) Based on daily average investment fund assets and month-end average sub-advisory, institutional and other assets.

In July 2019, the Mackenzie Emerging Markets Bond Index ETF was launched to provide investors with broad exposure to emerging markets while investing in U.S. denominated, emerging market government bonds and government related bonds. This ETF hedges foreign currency back to the Canadian dollar.

Mutual Funds

During 2019, the Mackenzie Global Growth Balanced Fund was launched to give investors stronger geographic diversification and enhanced return potential. Assets under management in this fund exceeded \$70 million by June 30, 2019. Mackenzie also launched three new liquid alternative funds designed to enhance diversified sources of return and improve portfolio stability:

- Mackenzie Credit Absolute Return Fund
- Mackenzie Global Macro Fund
- Mackenzie Global Long/Short Equity Alpha Fund

These three new funds brings our liquid alternative offering to five funds, supplementing our earlier launches of the Mackenzie Diversified Alternatives Fund and Mackenzie (MSARF) which have attracted \$1.1 billion to date.

During the second quarter of 2019, Mackenzie announced three fund mergers to simplify and strengthen its product shelf: Mackenzie Canadian Balanced Fund will merge into the Mackenzie Strategic Income Fund, Mackenzie US Strategic Income Fund will merge into the Mackenzie Global Strategic Income Fund, and Mackenzie US Dividend Registered Fund will merge into the Mackenzie US Dividend Fund. The Fund mergers are subject to investor approval and if approved, the changes will take effect on or about August 16, 2019.

CHANGE IN ASSETS UNDER MANAGEMENT – 2019 VS. 2018

Mackenzie's total assets under management at June 30, 2019 were \$68.6 billion, an increase of 2.5% from \$67.0 billion at June 30, 2018. Mackenzie's sub-advisory, institutional and other accounts at June 30, 2019 were \$7.2 billion, a decrease of 12.7% from \$8.3 billion last year.

Mackenzie's investment fund assets under management were \$61.4 billion at June 30, 2019, an increase of 4.6% from June 30, 2018. Mackenzie's mutual fund assets under management were \$58.9 billion at June 30, 2019, an increase of 3.6% from \$56.8 billion at June 30, 2018. Mackenzie's ETF assets were \$3.5 billion at June 30, 2019, inclusive of \$923 million in investments from Mackenzie mutual funds, compared to \$2.6 billion at June 30, 2018, inclusive of \$750 million in investments from Mackenzie mutual funds.

In the three months ended June 30, 2019, Mackenzie's mutual fund gross sales were \$2.5 billion, a decrease of 7.3% from

\$2.7 billion in the comparative period last year. Mutual fund redemptions in the current quarter were \$2.3 billion, a decrease of 13.9% from last year. Mutual fund net sales for the three months ended June 30, 2019 were \$207 million, as compared to net sales of \$30 million last year. In the three months ended June 30, 2019, ETF net creations were \$88 million compared to ETF net creations of \$570 million last year, inclusive of \$11 million and \$153 million, respectively, in investments from Mackenzie mutual funds. Investment fund net sales in the current quarter were \$284 million compared to net sales of \$447 million last year. During the current quarter, investment returns resulted in investment fund assets increasing by \$1.0 billion compared to an increase of \$1.3 billion last year.

During the second quarter of 2018, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$381 million, redemptions of \$514 million and net redemptions of \$133 million. Excluding these transactions in 2018, mutual fund gross sales increased 7.7% and mutual fund redemptions increased 6.2% in the three months ended June 30, 2019 compared to last year and mutual fund net sales of \$207 million in 2019 compared to mutual fund net sales of \$163 million last year.

Total net redemptions for the three months ended June 30, 2019 were \$250 million, compared to net sales of \$350 million last year. During the current quarter, investment returns resulted in assets increasing by \$1.1 billion compared to an increase of \$1.4 billion last year. Excluding the mutual fund allocation changes made by third party programs during the second quarter of 2018, total net redemptions were \$250 million in the current quarter compared to net sales of \$483 million last year.

In the six months ended June 30, 2019, Mackenzie's mutual fund gross sales were \$5.0 billion, a decrease of 6.1% from \$5.4 billion in the comparative period last year. Mutual fund redemptions in the current period were \$4.7 billion, a decrease of 7.2% from last year. Mutual fund net sales for the six months ended June 30, 2019 were \$355 million, as compared to net sales of \$316 million last year. In the six months ended June 30, 2019, ETF net creations were \$0.3 billion, inclusive of \$11 million in investments from Mackenzie mutual funds, compared to ETF net creations of \$1.3 billion, inclusive of \$386 million in investments from Mackenzie mutual funds last year. Investment fund net sales in the current period were \$0.7 billion compared to \$1.2 billion last year. During the current period, investment returns resulted in investment fund assets increasing by \$5.2 billion as compared to an increase of \$934 million last year.

During the six months ended June 30, 2018, certain third party programs, which include Mackenzie mutual funds, made fund allocation changes resulting in gross sales of \$381 million, redemptions of \$514 million and net redemptions

of \$133 million. Excluding these transactions in 2018, mutual fund gross sales increased 1.1% and mutual fund redemptions increased 3.3% in the six months ended June 30, 2019 compared to last year and mutual fund net sales were \$355 million in the current year compared to \$449 million last year.

Redemptions of long-term mutual funds in the three and six months ended June 30, 2019, were \$2.3 billion and \$4.5 billion, respectively, as compared to \$2.6 billion and \$4.9 billion last year. Redemptions of long-term mutual funds excluding mutual fund allocation changes made by third party programs were \$4.4 billion in the six months ended June 30, 2018. Mackenzie's annualized quarterly redemption rate for long-term mutual funds was 15.7% in the second quarter of 2019, compared to 18.9% in the second quarter of 2018. Mackenzie's annualized quarterly redemption rate for long-term mutual funds excluding rebalance transactions was 15.2% in the second quarter of 2018. Mackenzie's twelve-month trailing redemption rate for long-term mutual funds was 16.2% at June 30, 2019, as compared to 15.3% last year. Mackenzie's twelve month trailing redemption rate for long-term funds, excluding rebalance transactions, was 14.4% at June 30, 2018. The corresponding average twelve-month trailing redemption rate for long-term mutual funds for all other members of IFIC was approximately 16.7% at June 30, 2019. Mackenzie's twelve-month trailing redemption rate is comprised of the weighted average redemption rate for front-end load assets, deferred sales charge and low load assets with redemption fees, and deferred sales charge assets without redemption fees (matured assets). Generally, redemption rates for front-end load assets and matured assets are higher than the redemption rates for deferred sales charge and low load assets with redemption fees.

Total net sales for the six months ended June 30, 2019 were \$23 million, as compared to net sales of \$1.3 billion last year. During the six months ended June 30, 2019, investment returns resulted in assets increasing by \$5.9 billion, compared to an increase of \$1.1 billion last year. Excluding the mutual fund allocation changes in 2018 previously discussed, total net sales for the six month period of 2018 were \$1.5 billion.

CHANGE IN ASSETS UNDER MANAGEMENT – Q2 2019 VS. Q1 2019

Mackenzie's total assets under management at June 30, 2019, were \$68.6 billion, an increase of 1.2% from \$67.8 billion at March 31, 2019. Mackenzie's sub-advisory, institutional and other accounts at June 30, 2019 were \$7.2 billion, a decrease of 5.7% from \$7.7 billion at March 31, 2019.

Mackenzie's investment fund assets under management were \$61.4 billion at June 30, 2019, an increase of 2.1% from \$60.1 billion at March 31, 2019. Mackenzie's mutual fund assets under management were \$58.9 billion at June 30, 2019, an increase of 2.0% from \$57.7 billion at March 31, 2019. Mackenzie's ETF assets were \$3.5 billion at June 30, 2019, inclusive of \$923 million in investments from Mackenzie mutual funds compared to \$3.3 billion at March 31, 2019, inclusive of \$898 million investments from Mackenzie mutual funds.

For the quarter ended June 30, 2019, Mackenzie mutual fund gross sales were \$2.5 billion, an increase of 1.4% from the first quarter of 2019. Mutual fund redemptions, which totalled \$2.3 billion for the second quarter, decreased by 1.0% from the previous quarter. Net sales of Mackenzie mutual funds for the current quarter were \$207 million compared with net sales of \$148 million in the previous quarter.

Redemptions of long-term mutual fund assets in the current quarter were \$2.3 billion, compared to \$2.2 billion in the first quarter of 2019. Mackenzie's annualized quarterly redemption rate for long-term mutual funds for the current quarter was 15.7% compared to 16.4% for the first quarter. Net sales of long-term funds for the current quarter were \$158 million compared to net sales of \$135 million in the previous quarter.

For the quarter ended June 30, 2019, Mackenzie ETF net creations were \$88 million, a decrease of 61.4% from \$228 million in the first quarter. In the second quarter, ETF net creations were inclusive of \$11 million in investments from Mackenzie mutual funds.

Investment fund net sales in the current quarter were \$284 million compared to net sales of \$376 million in the first quarter.

REVIEW OF SEGMENT OPERATING RESULTS

The investment management functions of IG Wealth Management and Mackenzie form a single global investment management organization under Mackenzie to support both companies. Mackenzie's segment excludes investment advisory mandates to IG Wealth Management funds and investments into Mackenzie mutual funds by IG Wealth Management mutual funds and revenue earned on these mandates are not reflected within Mackenzie's segment revenues. Mackenzie and IG Wealth Management segments reflect their proportionate share of the expenses of the investment management function and aligns with internal management reporting.

Mackenzie's earnings before interest and taxes are presented in Table 14.

2019 VS. 2018

REVENUES

The largest component of Mackenzie's revenues is management fees. The amount of management fees depends on the level and composition of assets under management. Management fee rates vary depending on the investment objective and the account type of the underlying assets under management. For example, equity-based mandates have higher management fee rates than fixed income mandates and retail mutual fund accounts have higher management fee rates than sub-advised and institutional accounts. The majority of Mackenzie's mutual fund assets are purchased on a retail basis.

TABLE 14: OPERATING RESULTS – MACKENZIE

THREE MONTHS ENDED (\$ millions)	2019 JUN. 30	2019 MAR. 31	2018 JUN. 30	% CHANGE	
				2019 MAR. 31	2018 JUN. 30
Revenues					
Management fees	\$ 176.2	\$ 168.3	\$ 177.0	4.7 %	(0.5) %
Administration fees	24.5	23.3	24.9	5.2	(1.6)
Distribution fees	1.6	1.4	1.5	14.3	6.7
	202.3	193.0	203.4	4.8	(0.5)
Net investment income and other	0.8	4.2	2.5	(81.0)	(68.0)
	203.1	197.2	205.9	3.0	(1.4)
Expenses					
Commission	6.2	7.6	7.2	(18.4)	(13.9)
Trailing commission	67.3	64.9	65.7	3.7	2.4
Non-commission	84.8	88.8	84.3	(4.5)	0.6
	158.3	161.3	157.2	(1.9)	0.7
Earnings before interest and taxes	\$ 44.8	\$ 35.9	\$ 48.7	24.8 %	(8.0) %
SIX MONTHS ENDED (\$ millions)					
			2019 JUN. 30	2018 JUN. 30	% CHANGE
Revenues					
Management fees			\$ 344.5	\$ 352.9	(2.4) %
Administration fees			47.8	49.8	(4.0)
Distribution fees			3.0	3.6	(16.7)
			395.3	406.3	(2.7)
Net investment income and other			5.0	2.3	117.4
			400.3	408.6	(2.0)
Expenses					
Commission			13.8	17.1	(19.3)
Trailing commission			132.2	131.1	0.8
Non-commission			173.6	170.1	2.1
			319.6	318.3	0.4
Earnings before interest and taxes			\$ 80.7	\$ 90.3	(10.6) %

Within Mackenzie's retail mutual fund offering, certain series are offered for fee-based programs of participating dealers whereby dealer compensation on such series is charged directly by the dealer to a client (primarily Series F). As Mackenzie does not pay the dealer compensation, these series have lower management fees. At June 30, 2019, these series had \$9.8 billion in assets, an increase of 22.5% from the prior year.

Management fees were \$176.2 million for the three months ended June 30, 2019, a decrease of \$0.8 million or 0.5% from \$177.0 million last year. The net change in management fees was due to a decline in the average management fee rate, partially offset by an increase in total average assets under management of 3.1%. Mackenzie's average management fee rate was 103.9 basis points during the current quarter compared to 107.4 basis points in 2018.

Management fees were \$344.5 million for the six months ended June 30, 2019, a decrease of \$8.4 million or 2.4% from \$352.9 million last year. The net change in management fees was due to a decline in the average management fee rate, partially offset by the increase in total average assets under management of 1.8%. Mackenzie's average management fee rate in the six months ended June 30, 2019 was 104.0 basis points compared to 108.4 basis points in 2018.

The decrease in the average management fee rate in both the three and six month periods was due to a change in the composition of assets under management, including the impact of having a greater share in non-retail priced products and Series F.

Mackenzie earns administration fees primarily from providing services to its investment funds. Administration fees were \$24.5 million for the three months ended June 30, 2019, a decrease of \$0.4 million or 1.6% from last year. Administration fees were \$47.8 million for the six months ended June 30, 2019, a decrease of \$2.0 million or 4.0% from \$49.8 million last year.

Mackenzie earns distribution fee income on redemptions of mutual fund assets sold on a deferred sales charge purchase option and on a low load purchase option. Redemption fees charged for deferred sales charge assets range from 5.5% in the first year and decrease to zero after seven years. Redemption fees for low load assets range from 2.0% to 3.0% in the first year and decrease to zero after two or three years, depending on the purchase option. Distribution fee income in the three months ended June 30, 2019 was \$1.6 million, an increase of \$0.1 million from \$1.5 million last year. Distribution fee income in the six months ended June 30, 2019 was \$3.0 million, a decrease of \$0.6 million from \$3.6 million last year.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. These

investments are generally made in the process of launching a fund and are sold as third party investors subscribe. Net investment income and other was \$0.8 million for the three months ended June 30, 2019 compared to \$2.5 million last year. Net investment income and other was \$5.0 million for the six months ended June 30, 2019, an increase of \$2.7 million from \$2.3 million last year.

EXPENSES

Mackenzie's expenses were \$158.3 million for the three months ended June 30, 2019, an increase of \$1.1 million or 0.7% from \$157.2 million in 2018. Expenses for the six months ended June 30, 2019 were \$319.6 million, an increase of \$1.3 million or 0.4% from \$318.3 million last year.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge and low load purchase option. Commissions paid are expensed as incurred.

Commission expense was \$6.2 million in the three months ended June 30, 2019, as compared to \$7.2 million last year. Commission expense in the six months ended June 30, 2019 was \$13.8 million compared to \$17.1 million in 2018.

Trailing commissions paid to dealers are paid on certain classes of retail mutual funds and are calculated as a percentage of mutual fund assets under management. These fees vary depending on the fund type and the purchase option upon which the fund was sold: front-end, deferred sales charge or low load. Trailing commissions were \$67.3 million in the three months ended June 30, 2019, an increase of \$1.6 million or 2.4% from \$65.7 million last year. Trailing commissions in the six months ended June 30, 2019 were \$132.2 million, an increase of \$1.1 million or 0.8% from \$131.1 million last year. The increase in both the three and six month periods was primarily due to the increase in average mutual fund assets offset by a decline in the effective trailing commission rate. Trailing commissions as a percentage of average mutual fund assets under management was 46.2 and 46.3 basis points in the three and six months ended June 30, 2019 compared to 46.7 and 46.8 basis points in the three and six months ended June 30, 2018. The decline was due to a change in composition of mutual fund assets towards those series within mutual funds that do not pay trailing commissions.

Non-commission expenses are incurred by Mackenzie in the administration, marketing and management of its assets under management. Non-commission expenses were \$84.8 million in the three months ended June 30, 2019, an increase of \$0.5 million or 0.6% from \$84.3 million in 2018. Non-commission expenses in the six months ended June 30, 2019 were \$173.6 million, an increase of \$3.5 million or 2.1% from \$170.1 million in 2018.

Q2 2019 VS. Q1 2019

REVENUES

Mackenzie's revenues were \$203.1 million for the current quarter, an increase of \$5.9 million or 3.0% from \$197.2 million in the first quarter.

Management fees were \$176.2 million for the current quarter, an increase of \$7.9 million or 4.7% from \$168.3 million in the first quarter. Factors contributing to the net increase are as follows:

- Average assets under management were \$68.2 billion in the current quarter, an increase of 3.9% from \$65.6 billion in the prior quarter.
- There was one additional calendar day in the current quarter compared to the first quarter, which resulted in an increase of \$1.9 million.
- Mackenzie's average management fee rate was 103.9 basis points in the current quarter compared to 104.0 basis points in the prior quarter.

Administration fees were \$24.5 million in the current quarter, an increase of 5.2% from \$23.3 million in the first quarter.

Net investment income and other includes investment returns related to Mackenzie's investments in proprietary funds. Net

investment income and other was \$0.8 million for the current quarter compared to \$4.2 million in the first quarter.

EXPENSES

Mackenzie's expenses were \$158.3 million for the current quarter, a decrease of \$3.0 million or 1.9% from \$161.3 million in the first quarter.

Commission expense related to selling commissions paid was \$6.2 million in the quarter ended June 30, 2019, as compared to \$7.6 million in the first quarter.

Trailing commissions were \$67.3 million in the current quarter, an increase of \$2.4 million or 3.7% from \$64.9 million in the first quarter. The change in trailing commissions reflects the 4.3% period over period increase in average mutual fund assets under management, offset in part, by a decline in the effective trailing commission rate. The effective trailing commission rate was 46.2 basis points in the current quarter compared to 46.4 basis points in the first quarter.

Non-commission expenses were \$84.8 million in the current quarter, compared to \$88.8 million in the first quarter. The decrease was partially due to the seasonal nature of certain expenses normally incurred in the first quarter.

CORPORATE AND OTHER

REVIEW OF SEGMENT OPERATING RESULTS

The Corporate and Other segment includes net investment income not allocated to the IG Wealth Management or Mackenzie segments, the Company's proportionate share of earnings of its associates, Great-West Lifeco Inc. (Lifeco), China Asset Management Co., Ltd. (China AMC) and Personal Capital Corporation (Personal Capital), operating results for Investment Planning Counsel Inc., other income, as well as consolidation elimination entries.

On January 24, 2019, the Company invested an additional amount of \$66.8 million (USD \$50.0 million) in Personal Capital which increased its voting interest to 22.7%. As a result, the Company began using the equity method to account for its investment in Personal Capital as it exercises significant influence. Significant influence arises from its voting interest and board representation.

The Company also has investments in Wealthsimple Financial Corporation and Portag3 Ventures LPs.

Corporate and other earnings before interest and taxes are presented in Table 15.

2019 VS. 2018

The proportionate share of associates' earnings decreased by \$9.4 million in the second quarter of 2019 and decreased by \$14.7 million in the six months ended June 30, 2019, compared to 2018. These earnings reflect equity earnings from Lifeco and China AMC for all periods under review and from Personal Capital beginning in the first quarter 2019, as discussed in the Consolidated Financial Position section of this MD&A. The decrease resulted primarily from the inclusion of the Company's

TABLE 15: OPERATING RESULTS – CORPORATE AND OTHER

THREE MONTHS ENDED (\$ millions)	2019 JUN. 30	2019 MAR. 31	2018 JUN. 30	% CHANGE	
				2019 MAR. 31	2018 JUN. 30
Revenues					
Fee income	\$ 71.8	\$ 70.0	\$ 72.6	2.6 %	(1.1) %
Net investment income and other	3.5	6.0	4.0	(41.7)	(12.5)
Proportionate share of associates' earnings	28.2	32.7	37.6	(13.8)	(25.0)
	103.5	108.7	114.2	(4.8)	(9.4)
Expenses					
Commission	44.8	45.2	45.6	(0.9)	(1.8)
Non-commission	22.0	22.7	21.5	(3.1)	2.3
	66.8	67.9	67.1	(1.6)	(0.4)
Earnings before interest and taxes	\$ 36.7	\$ 40.8	\$ 47.1	(10.0) %	(22.1) %
SIX MONTHS ENDED (\$ millions)					
			2019 JUN. 30	2018 JUN. 30	% CHANGE
Revenues					
Fee income			\$ 141.8	\$ 145.0	(2.2) %
Net investment income and other			9.5	8.0	18.8
Proportionate share of associates' earnings			60.9	75.6	(19.4)
			212.2	228.6	(7.2)
Expenses					
Commission			90.0	91.6	(1.7)
Non-commission			44.7	44.1	1.4
			134.7	135.7	(0.7)
Earnings before interest and taxes			\$ 77.5	\$ 92.9	(16.6) %

proportionate share of Personal Capital's losses of \$4.6 million and \$8.0 million in the three and six months of 2019, as well as a decrease in Lifeco's earnings of \$4.9 million and \$6.4 million in the three and six months of 2019. Net investment income and other decreased to \$3.5 million in the second quarter of 2019 compared to \$4.0 million in 2018. For the six month period, net investment income and other increased to \$9.5 million compared to \$8.0 million in 2018.

Earnings before interest and taxes related to Investment Planning Counsel were \$0.9 million lower in the second quarter of 2019 compared to the same period in 2018 and were relatively unchanged in the six month period.

Q2 2019 VS. Q1 2019

The proportionate share of associates' earnings were \$28.2 million in the second quarter of 2019, a decrease of \$4.5 million from the first quarter of 2019 primarily resulting from the decrease of \$3.7 million in Lifeco's earnings from the first quarter. Net investment income and other was \$3.5 million in the second quarter of 2019, compared to \$6.0 million in the first quarter.

Earnings before interest and taxes related to Investment Planning Counsel were unchanged in the second quarter of 2019 compared to the prior quarter.

IGM FINANCIAL INC.

CONSOLIDATED FINANCIAL POSITION

IGM Financial's total assets were \$15.7 billion at June 30, 2019, compared to \$15.6 billion at December 31, 2018.

OTHER INVESTMENTS

The composition of the Company's securities holdings is detailed in Table 16.

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVTOCI)

Gains and losses on FVTOCI investments are recorded in Other comprehensive income.

Corporate Investments

Corporate investments is primarily comprised of the Company's investments in Wealthsimple Financial Corporation, and Portag3 Ventures LP and Portag3 Ventures II LP. In January 2019, the Company made an additional investment of \$66.8 million (USD \$50.0 million) in Personal Capital Corporation which increased its voting interest to 22.7% resulting in the reclassification of \$217.0 million on the Consolidated Balance Sheet from Corporate investments to Investment in associates.

Portag3 Ventures LP and Portag3 Ventures II LP (Portag3) are early-stage investment funds dedicated to backing innovating financial services companies and are controlled by the Company's parent, Power Financial Corporation. As at June 30, 2019, the Company had invested a total of \$45.1 million in Portag3, including \$11.0 million in the second quarter of 2019.

Wealthsimple Financial Corporation ("Wealthsimple") is an online investment manager that provides financial investment guidance. As at June 30, 2019, the Company had invested a total of \$171.1 million in Wealthsimple through a limited partnership controlled by the Company's parent, Power Financial Corporation. The Company invested \$18.2 million in the second quarter of 2019 for a total of \$36.1 million in the six month period.

FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Securities classified as FVTPL include equity securities and proprietary investment funds. Gains and losses are recorded in Net investment income and other in the Consolidated Statements of Earnings.

Certain proprietary investment funds are consolidated where the Company has made the assessment that it controls the investment fund. The underlying securities of these funds are classified as FVTPL.

LOANS

The composition of the Company's loans is detailed in Table 17.

Loans consisted of residential mortgages and represented 48.7% of total assets at June 30, 2019, compared to 49.6% at December 31, 2018.

Loans measured at amortized cost are primarily comprised of residential mortgages sold to securitization programs sponsored by third parties that in turn issue securities to investors. An offsetting liability, Obligations to securitization entities, has been recorded and totalled \$7.3 billion at June 30, 2019, compared to \$7.4 billion at December 31, 2018.

The Company holds loans pending sale or securitization. Loans measured at fair value through profit or loss are residential mortgages held temporarily by the Company pending sale. Loans held for securitization are carried at amortized cost. Total loans being held pending sale or securitization are \$372.3 million at June 30, 2019 compared to \$363.9 million at December 31, 2018.

Residential mortgages originated by IG Wealth Management are funded primarily through sales to third parties on a fully serviced basis, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank sponsored securitization programs. IG Wealth Management services \$12.5 billion of residential mortgages, including \$2.4 billion originated by subsidiaries of Lifeco.

TABLE 16: OTHER INVESTMENTS

(\$ millions)	JUNE 30, 2019		DECEMBER 31, 2018	
	COST	FAIR VALUE	COST	FAIR VALUE
Fair value through other comprehensive income				
Corporate investments	\$ 225.4	\$ 284.7	\$ 303.6	\$ 372.4
Fair value through profit or loss				
Equity securities	1.5	1.7	17.0	12.9
Proprietary investment funds	82.2	83.1	78.5	74.6
	83.7	84.8	95.5	87.5
	\$ 309.1	\$ 369.5	\$ 399.1	\$ 459.9

TABLE 17: LOANS

(\$ millions)	2019 JUNE 30	2018 DECEMBER 31
Amortized cost	\$ 7,649.0	\$ 7,734.5
Less: Allowance for expected credit losses	0.7	0.8
	7,648.3	7,733.7
Fair value through profit or loss	1.9	4.3
	\$ 7,650.2	\$ 7,738.0

SECURITIZATION ARRANGEMENTS

Through the Company's mortgage banking operations, residential mortgages originated by IG Wealth Management mortgage planning specialists are sold to securitization trusts sponsored by third parties that in turn issue securities to investors. The Company securitizes residential mortgages through the CMHC sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) and the Canada Mortgage Bond Program (CMB Program) and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. The Company retains servicing responsibilities and certain elements of credit risk and prepayment risk associated with the transferred assets. The Company's credit risk on its securitized mortgages is partially mitigated through the use of insurance. Derecognition of financial assets in accordance with IFRS is based on the transfer of risks and rewards of ownership. As the Company has retained prepayment risk and certain elements of credit risk associated with the Company's securitization transactions through the CMB and ABCP programs, they are accounted for as secured borrowings. The Company records the transactions under these programs as follows: (i) the mortgages and related obligations are carried at amortized cost, with interest income and interest expense, utilizing the effective interest rate method, recorded over the term of the mortgages, (ii) the component of swaps entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal, are recorded at fair value, and (iii) cash reserves held under the ABCP program are carried at amortized cost.

In the second quarter of 2019, the Company securitized loans through its mortgage banking operations with cash proceeds of \$320.6 million compared to \$355.3 million in 2018. Additional information related to the Company's securitization activities, including the Company's hedges of related reinvestment and interest rate risk, can be found in the Financial Risk section of this MD&A and in Note 5 to the Interim Financial Statements.

INVESTMENT IN ASSOCIATES

Great-West Lifeco Inc. (Lifeco)

At June 30, 2019, the Company held a 4% equity interest in Lifeco. IGM Financial and Lifeco are controlled by Power Financial Corporation.

The equity method is used to account for IGM Financial's investment in Lifeco, as it exercises significant influence. Changes in the carrying value for the six months ended June 30, 2019 compared with 2018 are shown in Table 18.

In April 2019, the Company participated on a proportionate basis in the Lifeco substantial issuer bid by selling 2,400,255 of its shares in Lifeco for proceeds of \$80.4 million. The Company's 4% interest in Lifeco remains substantially unchanged.

In June 2019, Lifeco recorded a one-time loss in relation to the sale of substantially all of its United States individual life insurance and annuity business. The Company's after-tax proportionate share of this loss was \$8.0 million.

China Asset Management Co., Ltd. (China AMC)

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

China AMC's total assets under management, excluding subsidiary assets under management, were RMB¥ 879.7 billion (\$174.5 billion) at December 31, 2018, representing a decrease of 2.9% (CAD\$ decrease of 3.1%) from RMB¥ 906.0 billion (\$180.0 billion) at June 30, 2018.

The equity method is used to account for the Company's 13.9% equity interest in China AMC, as it exercises significant influence. Changes in the carrying value for the six months ended June 30, 2019 are shown in Table 18.

TABLE 18: INVESTMENT IN ASSOCIATES

(\$ millions)	JUNE 30, 2019				JUNE 30, 2018		
	LIFECO	CHINA AMC	PERSONAL CAPITAL	TOTAL	LIFECO	CHINA AMC	TOTAL
THREE MONTHS ENDED							
Carrying value, April 1, 2019	\$ 999.5	\$ 692.8	\$ 213.7	\$ 1,906.0	\$ 922.0	\$ 694.5	\$ 1,616.5
Proceeds from substantial issuer bid	(80.4)	–	–	(80.4)	–	–	–
Dividends received	(15.4)	(10.3)	–	(25.7)	(15.4)	(12.2)	(27.6)
Proportionate share of:							
Earnings ⁽¹⁾	25.0	7.8	(4.6)	28.2	29.9	7.7	37.6
Associate's one-time loss ⁽¹⁾	(8.0)	–	–	(8.0)	–	–	–
Other comprehensive income (loss) and other adjustments	(10.6)	(28.0)	(4.2)	(42.8)	23.0	(20.1)	2.9
Carrying value, end of period	\$ 910.1	\$ 662.3	\$ 204.9	\$ 1,777.3	\$ 959.5	\$ 669.9	\$ 1,629.4
SIX MONTHS ENDED							
Carrying value, January 1, 2019	\$ 967.8	\$ 683.5	\$ –	\$ 1,651.3	\$ 901.4	\$ 647.9	\$ 1,549.3
Transfer from corporate investments (FVTOCI)	–	–	217.0	217.0	–	–	–
Proceeds from substantial issuer bid	(80.4)	–	–	(80.4)	–	–	–
Dividends received	(31.8)	(10.3)	–	(42.1)	(30.9)	(12.2)	(43.1)
Proportionate share of:							
Earnings ⁽¹⁾	53.7	15.2	(8.0)	60.9	60.1	15.5	75.6
Associate's one-time loss ⁽¹⁾	(8.0)	–	–	(8.0)	–	–	–
Other comprehensive income (loss) and other adjustments	8.8	(26.1)	(4.1)	(21.4)	28.9	18.7	47.6
Carrying value, end of period	\$ 910.1	\$ 662.3	\$ 204.9	\$ 1,777.3	\$ 959.5	\$ 669.9	\$ 1,629.4

(1) The proportionate share of earnings from the Company's investments in associates is recorded in Net investment income and other in the Corporate and other reportable segment (Tables 2-3).

Personal Capital Corporation (Personal Capital)

Founded in 2009 in the United States, Personal Capital is a leading digital wealth manager that has experienced significant growth since its inception.

As at June 30, 2019, Personal Capital had 2.22 million registered users, individuals who have signed up to use Personal Capital's free dashboard platform, representing an increase of 21.6% from 1.83 million at June 30, 2018 and an increase of 4.5% from 2.12 million at March 31, 2019.

Personal Capital's total assets under management were USD \$10.2 billion as at June 30, 2019, representing an increase of 38.9% from USD \$7.3 billion at June 30, 2018 and an increase of 10.2% from USD \$9.2 billion as at March 31, 2019.

Tracked Account Value (TAV), the net value of assets and liabilities aggregated by registered users, was USD \$748 billion as at June 30, 2019, representing an increase of 30.6% from USD \$572 billion at June 30, 2018 and an increase of 6.3% from USD \$703 billion as at March 31, 2019.

The equity method is used to account for the Company's 24.9% equity interest in Personal Capital, as it exercises significant influence. IGM Financial's equity earnings from Personal Capital includes its proportionate share of Personal Capital's net income adjusted by IGM Financial's amortization of intangible assets that it recognized as part of its investment in the company. Changes in the carrying value for the six months ended June 30, 2019 are shown in Table 18.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Cash and cash equivalents totalled \$601.3 million at June 30, 2019 compared with \$650.2 million at December 31, 2018 and \$721.7 million at June 30, 2018. Cash and cash equivalents related to the Company's deposit operations were \$3.0 million at June 30, 2019, compared to \$2.4 million at December 31, 2018 and \$2.9 million at June 30, 2018, as shown in Table 19.

Working capital, which consists of current assets less current liabilities, totalled \$422.1 million at June 30, 2019 compared with \$366.1 million at December 31, 2018 and \$148.8 million at June 30, 2018 (Table 20).

Working capital is utilized to:

- Finance ongoing operations, including the funding of sales commissions.
- Temporarily finance mortgages in its mortgage banking operations.
- Pay interest and dividends related to long-term debt and preferred shares.
- Maintain liquidity requirements for regulated entities.
- Pay quarterly dividends on its outstanding common shares.
- Finance common share repurchases, retirement of long-term debt and redemption of preferred shares.

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization before sales commissions (EBITDA before sales commissions) totalled \$324.5 million for the second quarter of 2019 compared to \$342.2 million for the second quarter of 2018 and \$295.9 million for the first quarter of 2019. For the six months ended June 30, 2019, EBITDA before sales commissions

totalled \$620.4 million compared to \$675.4 million for the comparative period of 2018. EBITDA before sales commissions excludes the impact of both commissions paid and commission amortization (refer to Table 1).

Earnings before interest, taxes, depreciation and amortization after sales commissions (EBITDA after sales commissions) totalled \$286.5 million in the second quarter of 2019 compared to \$297.7 million in the second quarter of 2018 and \$252.2 million in the first quarter of 2019. For the six months ended June 30, 2019, EBITDA after sales commissions totalled \$538.7 million compared to \$568.6 million for the comparative period of 2018. EBITDA after sales commissions excludes the impact of commission amortization (refer to Table 1).

Refer to the Financial Instruments Risk section of this MD&A for information related to other sources of liquidity and to the Company's exposure to and management of liquidity and funding risk.

CASH FLOWS

Table 21 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which forms part of the Interim Financial Statements for the three and six month periods ended June 30, 2019. Cash and cash equivalents decreased by \$235.8 million in the second quarter of 2019 compared to a decrease of \$56.5 million in 2018. For the six months ended June 30, 2019, cash and cash equivalents decreased by \$48.9 million compared to a decrease of \$245.1 million in 2018.

Adjustments to determine net cash from operating activities during the three and six month periods of 2019 compared to 2018 consist of non-cash operating activities offset by cash operating activities:

TABLE 19: DEPOSIT OPERATIONS – FINANCIAL POSITION

(\$ millions)	2019 JUN. 30	2018 DEC. 31	2018 JUN. 30
Assets			
Cash and cash equivalents	\$ 3.0	\$ 2.4	\$ 2.9
Client funds on deposit	514.2	546.8	471.3
Accounts and other receivables	19.4	8.8	5.4
Loans	22.9	21.3	21.9
Total assets	\$ 559.5	\$ 579.3	\$ 501.5
Liabilities and shareholders' equity			
Deposit liabilities	\$ 548.3	\$ 568.8	\$ 490.4
Other liabilities	0.5	0.5	0.5
Shareholders' equity	10.7	10.0	10.6
Total liabilities and shareholders' equity	\$ 559.5	\$ 579.3	\$ 501.5

TABLE 20: WORKING CAPITAL

(\$ millions)	2019 JUN. 30	2018 DEC. 31	2018 JUN. 30
Current assets			
Cash and cash equivalents	\$ 601.3	\$ 650.2	\$ 721.3
Client funds on deposit	514.2	546.8	471.3
Accounts receivable and other assets	402.1	311.9	403.8
Current portion of mortgages and other	1,422.1	1,280.1	1,272.5
	2,939.7	2,789.0	2,868.9
Current liabilities			
Accounts and other payables	608.9	644.7	966.2
Deposits and certificates	541.2	562.4	483.1
Current portion of long-term liabilities	1,367.5	1,215.8	1,270.8
	2,517.6	2,422.9	2,720.1
Working capital	\$ 422.1	\$ 366.1	\$ 148.8

- The add-back of amortization of capitalized sale commissions offset by the deduction of capitalized sales commissions paid.
- The add-back of amortization of capital and intangible assets.
- The deduction of investment in associates' equity earnings offset by dividends received.
- The add-back of pension and other post-employment benefits offset by cash contributions.
- Changes in operating assets and liabilities and other.
- The deduction of restructuring provision cash payments.

Financing activities during the second quarter of 2019 compared to 2018 related to:

- An increase in obligations to securitization entities of \$313.5 million and repayments of obligations to securitization entities of \$486.6 million in 2019 compared to an increase in obligations to securitization entities of \$349.5 million and repayments of obligations to securitization entities of \$511.5 million in 2018.
- Redemption of preferred shares of \$150.0 million in 2019.
- The purchase of 2,496,695 common shares in 2019 under IGM Financial's normal course issuer bid at a cost of \$90.8 million. There were no purchases in 2018.
- The payment of perpetual preferred share dividends which totalled \$2.2 million in 2019, unchanged from 2018.

TABLE 21: CASH FLOWS

(\$ millions)	THREE MONTHS ENDED JUNE 30			SIX MONTHS ENDED JUNE 30		
	2019	2018	% CHANGE	2019	2018	% CHANGE
Operating activities						
Earnings before income taxes	\$ 240.7	\$ 264.4	(9.0) %	\$ 455.5	\$ 504.4	(9.7) %
Income taxes paid	(46.1)	(45.2)	(2.0)	(142.7)	(83.6)	(70.7)
Adjustments to determine net cash from operating activities	62.6	0.2	N/M	(26.7)	(83.6)	68.1
	257.2	219.4	17.2	286.1	337.2	(15.2)
Financing activities	(556.8)	(299.1)	(86.2)	(349.4)	(572.9)	39.0
Investing activities	63.8	23.2	175.0	14.4	(9.4)	N/M
Change in cash and cash equivalents	(235.8)	(56.5)	N/M	(48.9)	(245.1)	80.0
Cash and cash equivalents, beginning of period	837.1	778.2	7.6	650.2	966.8	(32.7)
Cash and cash equivalents, end of period	\$ 601.3	\$ 721.7	(16.7) %	\$ 601.3	\$ 721.7	(16.7) %

- The payment of regular common share dividends which totalled \$135.5 million in 2019 compared to \$135.4 million in 2018.

Financing activities during the six months ended June 30, 2019 compared to 2018 related to:

- An increase in obligations to securitization entities of \$739.8 million and repayments of obligations to securitization entities of \$807.6 million in 2019 compared to an increase in obligations to securitization entities of \$711.1 million and repayments of obligations to securitization entities of \$864.3 million in 2018.
- Issuance of debentures of \$250.0 million in the first quarter of 2019.
- Repayment of debentures of \$150.0 million in the first quarter of 2018.
- Redemption of preferred shares of \$150.0 million in the second quarter of 2019.
- The purchase of 2,762,788 common shares in 2019 under IGM Financial's normal course issuer bid at a cost of \$100.0 million. There were no purchases in 2018.
- The payment of perpetual preferred share dividends which totalled \$4.4 million in 2019, unchanged from 2018.
- The payment of regular common share dividends which totalled \$271.0 million in 2019 compared to \$270.8 million in 2018.

Investing activities during the second quarter of 2019 compared to 2018 primarily related to:

- The purchases of other investments totalling \$62.1 million and sales of other investments with proceeds of \$36.0 million in 2019 compared to \$32.1 million and \$17.5 million, respectively, in 2018. Purchases included corporate investments of \$29.2 million in the second quarter of 2019 and \$20.2 million in the second quarter of 2018.
- An increase in loans of \$457.5 million with repayments of loans and other of \$498.4 million in 2019 compared to \$472.2 million and \$518.4 million, respectively, in 2018 primarily related to residential mortgages in the Company's mortgage banking operations.
- Net cash used in additions to intangible assets and acquisitions was \$26.7 million in 2019 compared to \$5.9 million in 2018.
- Proceeds of \$80.4 million from the sale of 2,400,255 Lifeco shares in 2019 as a result of the Company's participation in the Lifeco substantial issuer bid.

Investing activities during the six months ended June 30, 2019 compared to 2018 primarily related to:

- The purchases of other investments totalling \$97.5 million and sales of other investments with proceeds of \$56.3 million in 2019 compared to \$82.3 million and \$43.3 million, respectively, in 2018. Purchases included corporate investments of \$47.1 million in 2019 and \$47.0 million in 2018.
- An increase in loans of \$750.8 million with repayments of loans and other of \$839.7 million in 2019 compared to \$855.8 million and \$921.4 million, respectively, in 2018 primarily related to residential mortgages in the Company's mortgage banking operations.
- Net cash used in additions to intangible assets and acquisitions was \$36.8 million in 2019 compared to \$29.0 million in 2018.
- An additional investment in Personal Capital of \$66.8 million in the first quarter of 2019.
- Proceeds of \$80.4 million from the sale of 2,400,255 Lifeco shares in 2019 as a result of the Company's participation in the Lifeco substantial issuer bid.

CAPITAL RESOURCES

The Company's capital management objective is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Company consists of long-term debt, perpetual preferred shares and common shareholders' equity which totalled \$6.5 billion at June 30, 2019, unchanged from December 31, 2018. At December 31, 2018, capital included perpetual preferred shares of \$150 million which were redeemed in April 2019. The Company regularly assesses its capital management practices in response to changing economic conditions.

The Company's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Company, business expansion and other strategic objectives. Subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. These subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. The Company's subsidiaries have complied with all regulatory capital requirements.

The total outstanding long-term debt was \$2.1 billion at June 30, 2019, compared to \$1.9 billion at December 31, 2018. Long-term debt is comprised of debentures which are

senior unsecured debt obligations of the Company subject to standard covenants, including negative pledges, but which do not include any specified financial or operational covenants. The net increase in long-term debt resulted from the issuance on March 20, 2019 of \$250.0 million 4.206% debentures maturing March 21, 2050.

The net proceeds from the issuance of the debenture was used by the Company in part to fund the redemption of \$150 million 5.90% Non-Cumulative First Preferred Shares, Series B and for general corporate purposes. The Company redeemed the Series B Preferred Shares on April 30, 2019.

The Company purchased 2,762,788 common shares during the six months ended June 30, 2019 at a cost of \$100.0 million under its normal course issuer bid (refer to Note 8 to the Interim Financial Statements). The Company commenced a normal course issuer bid on March 26, 2019 to purchase up to 4 million of its common shares to provide the flexibility to manage its capital position while generating value for shareholders.

In connection with its normal course issuer bid, the Company has established an automatic securities purchase plan for its common shares. The automatic securities purchase plan provides standard instructions regarding how IGM Financial's common shares are to be purchased under its normal course issuer bid during certain pre-determined trading blackout periods. Outside of these pre-determined trading blackout periods, purchases under the Company's normal course issuer bid will be completed based upon management's discretion.

Other activities in 2019 included the declaration of perpetual preferred share dividends of \$2.2 million or \$0.36875 per share and common share dividends of \$269.5 million or \$1.125 per share. Changes in common share capital are reflected in the Consolidated Statements of Changes in Shareholders' Equity.

Standard & Poor's (S&P) current rating on the Company's senior unsecured debentures is "A" with a stable outlook. Dominion Bond Rating Service's (DBRS) current rating on the Company's senior unsecured debentures is "A (High)" with a stable rating trend.

Credit ratings are intended to provide investors with an independent measure of the credit quality of the securities of a company and are indicators of the likelihood of payment and the capacity of a company to meet its obligations in accordance with the terms of each obligation. Descriptions of the rating categories for each of the agencies set forth below have been obtained from the respective rating agencies' websites.

These ratings are not a recommendation to buy, sell or hold the securities of the Company and do not address market price

or other factors that might determine suitability of a specific security for a particular investor. The ratings also may not reflect the potential impact of all risks on the value of securities and are subject to revision or withdrawal at any time by the rating organization.

The A rating assigned to IGM Financial's senior unsecured debentures by S&P is the sixth highest of the 22 ratings used for long-term debt. This rating indicates S&P's view that the Company's capacity to meet its financial commitment on the obligation is strong, but the obligation is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories.

The A (High) rating assigned to IGM Financial's senior unsecured debentures by DBRS is the fifth highest of the 26 ratings used for long-term debt. Under the DBRS long-term rating scale, debt securities rated A (High) are of good credit quality and the capacity for the payment of financial obligations is substantial. While this is a favourable rating, entities in the A (High) category may be vulnerable to future events, but qualifying negative factors are considered manageable.

FINANCIAL INSTRUMENTS

Table 22 presents the carrying amounts and fair values of financial assets and financial liabilities. The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities and certain other financial liabilities.

Fair value is determined using the following methods and assumptions:

- Other investments and other financial assets and liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.
- Loans classified as held for trading are valued using market interest rates for loans with similar credit risk and maturity, specifically lending rates offered to retail borrowers by financial institutions.
- Loans classified as amortized cost are valued by discounting the expected future cash flows at prevailing market yields.
- Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for

TABLE 22: FINANCIAL INSTRUMENTS

(\$ millions)	JUNE 30, 2019		DECEMBER 31, 2018	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial assets recorded at fair value				
Other investments				
– Fair value through other comprehensive income	\$ 284.7	\$ 284.7	\$ 372.4	\$ 372.4
– Fair value through profit or loss	84.8	84.8	87.5	87.5
Loans				
– Fair value through profit or loss	1.8	1.8	4.3	4.3
Derivative financial instruments	19.0	19.0	16.4	16.4
Financial assets recorded at amortized cost				
Loans				
– Amortized cost	7,648.3	7,749.2	7,733.7	7,785.5
Financial liabilities recorded at fair value				
Derivative financial instruments	25.6	25.6	29.0	29.0
Other financial liabilities	–	–	8.2	8.2
Financial liabilities recorded at amortized cost				
Deposits and certificates	548.3	548.7	568.8	569.0
Obligations to securitization entities	7,337.1	7,460.3	7,370.2	7,436.9
Long-term debt	2,100.0	2,468.1	1,850.0	2,050.3

securities issued by these securitization entities having similar terms and characteristics.

- Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is valued using quoted prices for each debenture available in the market.
- Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for

instruments with similar characteristics and maturities, or discounted cash flow analysis.

See Note 13 of the Interim Financial Statements which provides additional discussion on the determination of fair value of financial instruments.

Although there were changes to both the carrying values and fair values of financial instruments, these changes did not have a material impact on the financial condition of the Company for the six months ended June 30, 2019.

RISK MANAGEMENT

The Company is exposed to a variety of risks that are inherent in its business activities. Its ability to manage these risks is key to its ongoing success. The Company emphasizes a strong risk management culture and the implementation of an effective risk management approach. The risk management approach coordinates risk management across the organization and its business units and seeks to ensure prudent and measured risk-taking in order to achieve an appropriate balance between risk and return. Fundamental to our enterprise risk management program is protecting and enhancing our reputation.

RISK MANAGEMENT FRAMEWORK

The Company's risk management approach is undertaken through its Enterprise Risk Management (ERM) Framework which includes five core elements: risk governance, risk appetite, risk principles, a defined risk management process, and risk management culture. The ERM Framework is established under the Company's ERM Policy, which is approved by the Risk Management Committee.

RISK GOVERNANCE

The Company's risk governance structure emphasizes a comprehensive and consistent framework throughout the Company and its subsidiaries, with identified ownership of risk management in each business unit and oversight by an executive Risk Management Committee accountable to the Board of Directors. Additional oversight is provided by the Enterprise Risk Management (ERM) Department, compliance groups, and the Company's Internal Audit Department.

The Board of Directors provides primary oversight and carries out its risk management mandate. The Board is responsible for the oversight of enterprise risk management by: i) ensuring that appropriate procedures are in place to identify and manage risks and establish risk tolerances, ii) ensuring that appropriate policies, procedures and controls are implemented to manage risks, and iii) reviewing the risk management process on a regular basis to ensure that it is functioning effectively.

Other specific risks are managed with the support of the following Board committees:

- The Audit Committee has specific risk oversight responsibilities in relation to financial disclosure, internal controls and the control environment as well as the Company's compliance activities.
- Other committees having specific risk oversight responsibilities include: i) the Human Resource Committee which oversees compensation policies and practices, ii) the Governance and Nominating Committee which oversees corporate governance practices, and iii) the Related Party

and Conduct Review Committee which oversees conflicts of interest as well as the administration of the Code of Business Conduct and Ethics for Directors, Officers and Employees (Code of Conduct).

Management oversight for risk management resides with the executive Risk Management Committee which is comprised of the President and Chief Executive Officer, IGM Financial and IG Wealth Management, the President and Chief Executive Officer, Mackenzie Investments, the Chief Financial Officer, the General Counsel, the Chief Operating Officer and the Executive Vice President Chief Strategy and Corporate Development Officer. The committee is responsible for providing oversight of the Company's risk management process by: i) establishing and maintaining the risk framework and policy, ii) defining the Company's risk appetite, iii) ensuring the Company's risk profile and processes are aligned with corporate strategy and risk appetite, and iv) establishing "tone at the top" and reinforcing a strong culture of risk management.

The Chief Executive Officers of the operating companies have overall responsibility for overseeing risk management of their respective companies.

The Company has assigned responsibility for risk management using the Three Lines of Defence model, with the First Line reflecting the business units having primary responsibility for risk management, supported by Second Line risk management functions and a Third Line Internal Audit function providing assurance and validation of the design and effectiveness of the ERM Framework.

First Line of Defence

The leaders of the various business units and support functions have primary ownership and accountability for the ongoing risk management associated with their respective activities. Responsibilities of business unit and support function leaders include: i) establishing and maintaining procedures for the identification, assessment, documentation and escalation of risks, ii) implementing control activities to mitigate risks, iii) identifying opportunities for risk reduction or transfer, and iv) aligning business and operational strategies with the risk culture and risk appetite of the organization as established by the Risk Management Committee.

Second Line of Defence

The Enterprise Risk Management (ERM) Department provides oversight, analysis and reporting to the Risk Management Committee on the level of risks relative to the established risk appetite for all activities of the Company. Other responsibilities include: i) developing and maintaining the enterprise risk management program and framework, ii) managing the

enterprise risk management process, and iii) providing guidance and training to business unit and support function leaders.

The Company has a number of committees of senior business leaders which provide oversight of specific business risks, including the Financial Risk Management and Operational Risk Management committees. These committees perform critical reviews of risk assessments, risk management practices and risk response plans developed by business units and support functions.

Other oversight accountabilities reside with the Company's corporate and compliance groups which are responsible for ensuring compliance with policies, laws and regulations.

Third Line of Defence

The Internal Audit Department is the third line of defence and provides independent assurance to senior management and the Board of Directors on the effectiveness of risk management policies, processes and practices.

RISK APPETITE AND RISK PRINCIPLES

The Risk Management Committee establishes the Company's appetite for different types of risk through the Risk Appetite Framework. Under the Risk Appetite Framework, one of four appetite levels is established for each risk type and business activity of the Company. These appetite levels range from those where the Company has no appetite for risk and seeks to minimize any losses, to those where the Company readily accepts exposure while seeking to ensure that risks are well understood and managed. These appetite levels guide our business units as they engage in business activities, and inform them in establishing policies, limits, controls and risk transfer activities.

A Risk Appetite Statement and Risk Principles provide further guidance to business leaders and employees as they conduct risk management activities. The Risk Appetite Statement's emphasis is to maintain the Company's reputation and brand, ensure financial flexibility, and focus on mitigating operational risk.

RISK MANAGEMENT PROCESS

The Company's risk management process is designed to foster:

- Ongoing assessment of risks and tolerance in a changing operating environment.
- Appropriate identification and understanding of existing and emerging risks and risk response.
- Timely monitoring and escalation of risks based upon changing circumstances.

Significant risks that may adversely affect the Company's ability to achieve its strategic and business objectives are identified through the Company's ongoing risk management process.

We use a consistent methodology across our organizations and business units for identification and assessment of risks. Risks are assessed by evaluating the impact and likelihood of the potential risk event after consideration of controls and any risk transfer activities. The results of these assessments are considered relative to risk appetite and tolerances and may result in action plans to adjust the risk profile.

Risk assessments are monitored and reviewed on an ongoing basis by business units and by oversight areas including the ERM Department. The ERM Department promotes and coordinates communication and consultation to support effective risk management and escalation. The ERM Department regularly reports on the results of risk assessments and on the assessment process to the Risk Management Committee and to the Board of Directors.

RISK MANAGEMENT CULTURE

Risk management is intended to be everyone's responsibility within the organization. The ERM Department engages all business units in workshops to foster awareness and incorporation of our risk framework into our business activities.

We have an established business planning process which reinforces our risk management culture. Our compensation programs are typically objectives-based, and do not encourage or reward excessive or inappropriate risk taking, and often are aligned specifically with risk management objectives.

Our risk management program emphasizes integrity, ethical practices, responsible management and measured risk-taking with a long-term view. Our standards of integrity and ethics are reflected within our Code of Conduct which applies to directors, officers and employees.

KEY RISKS OF THE BUSINESS

The Company identifies risks to which its businesses and operations could be exposed considering factors both internal and external to the organization. These risks are broadly grouped into six categories.

1) FINANCIAL RISK

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk of the inability to generate or obtain sufficient cash in a timely and cost-effective manner to meet contractual or anticipated commitments as they come due or arise.

The Company's liquidity management practices include:

- Maintaining liquid assets and lines of credit to satisfy near term liquidity needs.

- Ensuring effective controls over liquidity management processes.
- Performing regular cash forecasts and stress testing.
- Regular assessment of capital market conditions and the Company's ability to access bank and capital market funding.
- Ongoing efforts to diversify and expand long-term mortgage funding sources.
- Oversight of liquidity management by the Financial Risk Management Committee, a committee of finance and other business leaders.

A key funding requirement for the Company is the funding of Consultant network compensation paid for the distribution of financial products and services. This compensation continues to be paid from operating cash flows.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages pending sale or securitization to long-term funding sources and to manage any derivative collateral requirements related to the mortgage banking operation. Through its mortgage banking operations, residential mortgages are sold to third parties including certain mutual funds, institutional investors through private placements, Canadian bank-sponsored securitization trusts, and by issuance and sale of National Housing Act Mortgage-Backed Securities (NHA MBS) securities including sales to Canada Housing Trust under the CMB Program. The Company maintains committed capacity within certain Canadian bank-sponsored securitization trusts. Capacity for sales under the CMB Program consists of participation in new CMB issues and reinvestment of principal repayments held in the Principal Reinvestment Accounts. The Company's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions and government regulations that

are subject to change. A condition of the NHA MBS and CMB Program is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is dependent upon market conditions and is subject to change.

As part of ongoing liquidity management during 2019 and 2018, the Company:

- Continued to assess additional funding sources for the Company's mortgage banking operations.
- Repaid the \$150 million 6.58% debentures in March 2018.
- Issued \$200 million of 30 year 4.174% debentures in July 2018. The net proceeds were used by IGM Financial, together with a portion of IGM Financial's existing internal cash resources, to fund the early redemption in August of all of its \$375 million aggregate principal amount of 7.35% debentures due April 8, 2019.
- Issued \$250 million 4.206% debentures in March 2019 maturing March 21, 2050. The net proceeds were used by the Company to fund the redemption of \$150 million 5.90% Non-Cumulative First Preferred Shares, Series B and for general corporate purposes. The Company redeemed the Series B Preferred Shares on April 30, 2019.
- Participated in the Lifeco substantial issuer bid by selling 2,400,255 of its shares in Lifeco for proceeds of \$80.4 million.

The Company's contractual obligations are reflected in Table 23.

In addition to IGM Financial's current balance of cash and cash equivalents, liquidity is available through the Company's lines of credit. The Company's lines of credit with various Schedule I Canadian chartered banks totalled \$825 million at June 30, 2019, unchanged from December 31, 2018. The lines of credit at June 30, 2019 consisted of committed lines of \$650 million and uncommitted lines of \$175 million, unchanged

TABLE 23: CONTRACTUAL OBLIGATIONS

AS AT JUNE 30, 2019 (\$ millions)	DEMAND	LESS THAN 1 YEAR	1-5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	\$ –	\$ 7.4	\$ 17.6	\$ 0.6	\$ 25.6
Deposits and certificates	533.3	7.9	5.8	1.3	548.3
Obligations to securitization entities	–	1,333.7	5,982.0	21.4	7,337.1
Long-term debt	–	–	–	2,100.0	2,100.0
Leases ⁽¹⁾	–	27.5	61.2	27.8	116.5
Pension funding ⁽²⁾	–	12.7	–	–	12.7
Total contractual obligations	\$ 533.3	\$ 1,389.2	\$ 6,066.6	\$ 2,151.1	\$ 10,140.2

(1) Includes future minimum lease payments related to office space and equipment used in the normal course of business.

(2) The next required actuarial valuation will be completed based on a measurement date of December 31, 2020. Pension funding requirements beyond 2019 are subject to significant variability and will be determined based on future actuarial valuations. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

from December 31, 2018. The Company has accessed its uncommitted lines of credit in the past; however, any advances made by a bank under the uncommitted lines of credit are at the bank's sole discretion. As at June 30, 2019 and December 31, 2018, the Company was not utilizing its committed lines of credit or its uncommitted lines of credit.

The actuarial valuation for funding purposes related to the Company's registered defined benefit pension plan, based on a measurement date of December 31, 2017, was completed in May 2018. The valuation determines the plan surplus or deficit on both a solvency and going concern basis. The solvency basis determines the relationship between the plan assets and its liabilities assuming that the plan is wound up and settled on the valuation date. A going concern valuation compares the relationship between the plan assets and the present value of the expected future benefit cash flows, assuming the plan will be maintained indefinitely. Based on the actuarial valuation, the registered pension plan had a solvency deficit of \$47.2 million compared to \$82.7 million in the previous actuarial valuation, which was based on a measurement date of December 31, 2016. The decrease in the solvency deficit resulted primarily from higher assets due to contribution and investment returns and is required to be funded over five years. The registered pension plan had a going concern surplus of \$46.1 million compared to \$24.4 million in the previous valuation. The next required actuarial valuation will be based on a measurement date of December 31, 2020. The Company has made contributions of \$12.3 million in 2019 (2018 – \$30.3 million). The Company utilized \$10.5 million of the payments made during 2018 to reduce its solvency deficit and increase its going concern surplus. The Company expects to make further contributions of approximately \$12.7 million in 2019. Pension contribution decisions are subject to change, as contributions are affected by many factors including market performance, regulatory requirements, changes in assumptions and management's ability to change funding policy.

Management believes cash flows from operations, available cash balances and other sources of liquidity described above are sufficient to meet the Company's liquidity needs. The Company continues to have the ability to meet its operational cash flow requirements, its contractual obligations, and its declared dividends. The current practice of the Company is to declare and pay dividends to common shareholders on a quarterly basis at the discretion of the Board of Directors. The declaration of dividends by the Board of Directors is dependent on a variety of factors, including earnings which are significantly influenced by the impact that debt and equity market performance has on the Company's fee income and commission and certain other expenses. The Company's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2018.

CREDIT RISK

Credit risk is the potential for financial loss to the Company if a counterparty to a transaction fails to meet its obligations.

The Company's cash and cash equivalents, other investment holdings, mortgage portfolios, and derivatives are subject to credit risk. The Company monitors its credit risk management practices on an ongoing basis to evaluate their effectiveness.

Cash and Cash Equivalents

At June 30, 2019, cash and cash equivalents of \$601.3 million (December 31, 2018 – \$650.2 million) consisted of cash balances of \$45.9 million (December 31, 2018 – \$81.8 million) on deposit with Canadian chartered banks and cash equivalents of \$555.4 million (December 31, 2018 – \$568.4 million). Cash equivalents are comprised of Government of Canada treasury bills totalling \$13.7 million (December 31, 2018 – \$103.5 million), provincial government treasury bills and promissory notes of \$148.1 million (December 31, 2018 – \$76.2 million), bankers' acceptances and other short-term notes issued by Canadian chartered banks of \$381.2 million (December 31, 2018 – \$364.3 million), and highly rated corporate commercial paper of \$12.4 million (December 31, 2018 – \$24.4 million).

The Company manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits. The Company regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

The Company's exposure to and management of credit risk related to cash and cash equivalents and fixed income securities have not changed materially since December 31, 2018.

Mortgage Portfolio

As at June 30, 2019, residential mortgages, recorded on the Company's balance sheet, of \$7.7 billion (December 31, 2018 – \$7.7 billion) consisted of \$7.3 billion sold to securitization programs (December 31, 2018 – \$7.3 billion), \$372.3 million held pending sale or securitization (December 31, 2018 – \$363.9 million) and \$27.5 million related to the Company's intermediary operations (December 31, 2018 – \$25.6 million).

The Company manages credit risk related to residential mortgages through:

- Adhering to its lending policy and underwriting standards;
- Its loan servicing capabilities;
- Use of client-insured mortgage default insurance and mortgage portfolio default insurance held by the Company; and

- Its practice of originating its mortgages exclusively through its own network of Mortgage Planning Specialists and IG Wealth Management Consultants as part of a client's IG Living Plan.

In certain instances, credit risk is also limited by the terms and nature of securitization transactions as described below:

- Under the NHA MBS program totalling \$4.2 billion (December 31, 2018 – \$4.2 billion), the Company is obligated to make timely payment of principal and coupons irrespective of whether such payments were received from the mortgage borrower. However, as required by the NHA MBS program, 100% of the loans are insured by an approved insurer.
- Credit risk for mortgages securitized by transfer to bank-sponsored securitization trusts totalling \$3.1 billion (December 31, 2018 – \$3.1 billion) is limited to amounts held in cash reserve accounts and future net interest income, the fair values of which were \$77.0 million (December 31, 2018 – \$74.1 million) and \$38.5 million (December 31, 2018 – \$35.6 million), respectively, at June 30, 2019. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages. This risk is further mitigated by insurance with 5.5% of mortgages held in ABCP Trusts insured at June 30, 2019 (December 31, 2018 – 8.3%).

At June 30, 2019, residential mortgages recorded on balance sheet were 59.8% insured (December 31, 2018 – 61.5%). As at June 30, 2019, impaired mortgages on these portfolios were \$4.0 million, compared to \$3.3 million at December 31, 2018. Uninsured non-performing mortgages over 90 days on these portfolios were \$2.1 million at June 30, 2019, compared to \$1.8 million at December 31, 2018.

The Company also retains certain elements of credit risk on mortgage loans sold to the Investors Mortgage and Short Term Income Fund and to the Investors Canadian Corporate Bond Fund through an agreement to repurchase mortgages in certain circumstances benefiting the funds. These loans are not recorded on the Company's balance sheet as the Company has transferred substantially all of the risks and rewards of ownership associated with these loans.

The Company regularly reviews the credit quality of the mortgages and the adequacy of the allowance for expected credit losses.

The Company's allowance for expected credit losses was \$0.7 million at June 30, 2019, compared to \$0.8 million at December 31, 2018, and is considered adequate by management to absorb all credit-related losses in the mortgage portfolios based on: i) historical credit performance experience

and recent trends, ii) current portfolio credit metrics and other relevant characteristics, and iii) regular stress testing of losses under adverse real estate market conditions.

The Company's exposure to and management of credit risk related to mortgage portfolios have not changed materially since December 31, 2018.

Derivatives

The Company is exposed to credit risk through derivative contracts it utilizes to hedge interest rate risk, to facilitate securitization transactions and to hedge market risk related to certain stock-based compensation arrangements. These derivatives are discussed more fully under the Market Risk section of this MD&A.

To the extent that the fair value of the derivatives is in a gain position, the Company is exposed to credit risk that its counterparties fail to fulfil their obligations under these arrangements.

The Company's derivative activities are managed in accordance with its Investment Policy which includes counterparty limits and other parameters to manage counterparty risk. The aggregate credit risk exposure related to derivatives that are in a gain position of \$18.7 million (December 31, 2018 – \$19.4 million) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements and including rights to future net interest income, was \$0.5 million at June 30, 2019 (December 31, 2018 – nil). Counterparties are all Canadian Schedule I chartered banks and, as a result, management has determined that the Company's overall credit risk related to derivatives was not significant at June 30, 2019. Management of credit risk related to derivatives has not changed materially since December 31, 2018.

Additional information related to the Company's securitization activities and utilization of derivative contracts can be found in Note 5 to the Interim Financial Statements and Notes 2, 6 and 21 to the Annual Financial Statements.

MARKET RISK

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in foreign exchange rates, interest rates or equity prices.

Interest Rate Risk

The Company is exposed to interest rate risk on its mortgage portfolio and on certain of the derivative financial instruments used in the Company's mortgage banking operations.

The Company manages interest rate risk associated with its mortgage banking operations by entering into interest rate swaps with Canadian Schedule I chartered banks as follows:

- The Company has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. As previously discussed, as part of the CMB Program, the Company is party to a swap whereby it is entitled to receive investment returns on reinvested mortgage principal and is obligated to pay Canada Mortgage Bond coupons. This swap had a negative fair value of \$9.1 million (December 31, 2018 – positive \$4.9 million) and an outstanding notional amount of \$0.9 billion at June 30, 2019 (December 31, 2018 – \$0.9 billion). The Company enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages and reinvestment returns decline. The fair value of these swaps totalled \$0.9 million (December 31, 2018 – negative \$11.0 million), on an outstanding notional amount of \$1.8 billion at June 30, 2019 (December 31, 2018 – \$1.7 billion). The net fair value of these swaps of negative \$8.2 million at June 30, 2019 (December 31, 2018 – negative \$6.1 million) is recorded on the balance sheet and has an outstanding notional amount of \$2.7 billion (December 31, 2018 – \$2.6 billion).
- The Company is exposed to the impact that changes in interest rates may have on the value of mortgages committed to or held pending sale or securitization to long-term funding sources. The Company enters into interest rate swaps to hedge the interest rate risk related to funding costs for mortgages held by the Company pending sale or securitization. Beginning in 2018, hedge accounting is applied to the cost of funds on certain securitization activities. The effective portion of fair value changes of the associated interest rate swaps are initially recognized in Other comprehensive income and subsequently recognized in Net investment income and other over the term of the related Obligations to securitization entities. The fair value of these swaps was negative \$0.7 million (December 31, 2018 – negative \$1.8 million) on an outstanding notional amount of \$220.5 million at June 30, 2019 (December 31, 2018 – \$249.9 million).

As at June 30, 2019, the impact to annual net earnings of a 100 basis point increase in interest rates would have been an increase of approximately \$0.1 million (December 31, 2018 – decrease of \$0.5 million). The Company's exposure to and management of interest rate risk have not changed materially since December 31, 2018.

Equity Price Risk

The Company is exposed to equity price risk on its equity investments which are classified as either fair value through other comprehensive income or fair value through profit or loss. The fair value of the equity investments was \$369.5 million at June 30, 2019 (December 31, 2018 – \$459.9 million), as shown in Table 16.

The Company sponsors a number of deferred compensation arrangements for employees where payments to participants are deferred and linked to the performance of the common shares of IGM Financial Inc. The Company hedges its exposure to this risk through the use of forward agreements and total return swaps.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk on its investments in Personal Capital and China AMC. Changes to the carrying value due to changes in foreign exchange rates on both of these investments are recognized in Other comprehensive income. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the aggregate carrying value of foreign investments by approximately \$41.0 million (\$45.3 million).

The Company's proportionate share of China AMC's and Personal Capital's earnings (losses), recorded in Proportionate share of associates' earnings in the Consolidated Statement of Earnings, is also affected by changes in foreign exchange rates. A 5% appreciation (depreciation) in Canadian currency relative to foreign currencies would decrease (increase) the Company's proportionate share of earnings by approximately \$0.2 million (\$0.2 million).

RISKS RELATED TO ASSETS UNDER MANAGEMENT

At June 30, 2019, IGM Financial's total assets under management were \$162.3 billion compared to \$149.1 billion at December 31, 2018.

The Company's primary sources of revenues are management, administration and other fees which are applied as an annual percentage of the level of assets under management. As a result, the level of the Company's revenues and earnings are indirectly exposed to a number of financial risks that affect the value of assets under management on an ongoing basis. These include market risks, such as changes in equity prices, interest rates and foreign exchange rates, as well as credit risk on debt securities, loans and credit exposures from other counterparties within our client portfolios.

Changing financial market conditions may also lead to a change in the composition of the Company's assets under management

between equity and fixed income instruments, which could result in lower revenues depending upon the management fee rates associated with different asset classes and mandates.

The Company's exposure to the value of assets under management aligns it with the experience of its clients. Assets under management are broadly diversified by asset class, geographic region, industry sector, investment team and style. The Company regularly reviews the sensitivity of its assets under management, revenues, earnings and cash flow to changes in financial markets. The Company believes that over the long term, exposure to investment returns on its client portfolios is beneficial to the Company's results and consistent with stakeholder expectations, and generally it does not engage in risk transfer activities such as hedging in relation to these exposures.

2) OPERATIONAL RISK

Operational risks relating to people and processes are mitigated through policies and process controls. Oversight of risks and ongoing evaluation of the effectiveness of controls is provided by the Company's Compliance Department, ERM Department and Internal Audit Department.

The Company has an insurance review process where it assesses and determines the nature and extent of insurance that is appropriate to provide adequate protection against unexpected losses, and where it is required by law, regulators or contractual agreements.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human interaction or external events, but excludes business risk.

Operational risk affects all business activities, including the processes in place to manage other risks. As a result, operational risk can be difficult to measure, given that it forms part of other risks of the Company and may not always be separately identified. Our Company is exposed to a broad range of operational risks, including information technology security and system failures, errors relating to transaction processing, financial models and valuations, fraud and misappropriation of assets, and inadequate application of internal control processes. The impact can result in significant financial loss, reputational harm or regulatory actions.

The Company's risk management framework emphasizes operational risk management and internal control. The Company has a very low appetite for risk in this area.

The business unit leaders are responsible for management of the day to day operational risks of their respective business units. Specific programs, policies, training, standards and governance processes have been developed to support the management of operational risk.

The Company has a business continuity management program to support the sustainment, management and recovery of critical operations and processes in the event of a business disruption.

TECHNOLOGY AND CYBER RISK

Technology and cyber risk driven by systems are managed through controls over technology development and change management. Information security is a significant risk to our industry and our Company's operations. The Company uses systems and technology to support its business operations and the client and financial advisor experience. As a result, we are exposed to risks relating to technology and cyber security such

TABLE 24: IGM FINANCIAL ASSETS UNDER MANAGEMENT – ASSET AND CURRENCY MIX

AS AT JUNE 30, 2019	INVESTMENT FUNDS	TOTAL
Cash	0.8 %	1.2 %
Short-term fixed income and mortgages	5.1	5.1
Other fixed income	27.0	26.6
Domestic equity	22.0	22.1
Foreign equity	41.8	41.8
Real Property	3.3	3.2
	100.0 %	100.0 %
CAD	57.3 %	57.5 %
USD	27.6	27.2
Other	15.1	15.3
	100.0 %	100.0 %

as data breaches, identity theft and hacking, including the risk of denial of service or malicious software attacks. Such attacks could compromise confidential information of the Company and that of clients or other stakeholders, and could result in negative consequences including lost revenue, litigation, regulatory scrutiny or reputational damage. To remain resilient to such threats, the Company has established enterprise-wide cyber security programs, benchmarked capabilities to sound industry practices, and has implemented threat and vulnerability assessment and response capabilities.

THIRD PARTY SERVICE PROVIDERS

The Company regularly engages third parties to provide expertise and efficiencies that support our operational activities. Our exposure to third party service provider risk could include reputational, regulatory and other operational risks. Policies, standard operating procedures and dedicated resources, including a supplier code of conduct, have been developed and implemented to specifically address third party service provider risk. Due diligence and monitoring activities are performed by the Company prior to entering into contractual relationships with third party service providers and on an ongoing basis. As our reliance on external service providers continues to grow, we continue to enhance resources and processes to support third party risk management.

MODEL RISK

The Company uses a variety of models to assist in: the valuation of financial instruments, operational scenario testing, management of cash flows, capital management, and assessment of potential acquisitions. These models incorporate internal assumptions, observable market inputs and available market prices. Effective controls exist over the development, implementation and application of these models. However, changes in the internal assumptions or other factors affecting the models could have an adverse effect on the Company's consolidated financial position.

LEGAL AND REGULATORY COMPLIANCE

Legal and Regulatory Compliance Risk is the risk of not complying with laws, contractual agreements or regulatory requirements. This includes distribution compliance, investment management compliance, accounting and internal controls, and reporting and communications.

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements, including the requirements of agencies of the federal, provincial and territorial governments in Canada which regulate the Company and its activities. The Company and its subsidiaries are also subject to the requirements of self-regulatory organizations to which they belong. These

and other regulatory bodies regularly adopt new laws, rules, regulations and policies that apply to the Company and its subsidiaries. These requirements include those that apply to IGM Financial as a publicly traded company and those that apply to the Company's subsidiaries based on the nature of their activities. They include regulations related to the management and provision of financial products and services, including securities, insurance and mortgages, and other activities carried on by the Company in the markets in which it operates. Regulatory standards affecting the Company and the financial services industry are significant and continually evolve. The Company and its subsidiaries are subject to reviews as part of the normal ongoing process of oversight by the various regulators.

Failure to comply with laws, rules or regulations could lead to regulatory sanctions and civil liability, and may have an adverse reputational or financial effect on the Company. The Company manages legal and regulatory compliance risk through its efforts to promote a strong culture of compliance. The monitoring of regulatory developments and their impact on the Company is overseen by the Regulatory Initiatives Committee chaired by the Executive Vice-President, General Counsel. The Company also continues to develop and maintain compliance policies, processes and oversight, including specific communications on compliance and legal matters, training, testing, monitoring and reporting. The Audit Committee of the Company receives regular reporting on compliance initiatives and issues.

IGM Financial promotes a strong culture of ethics and integrity through its Code of Conduct approved by the Board of Directors, which outlines standards of conduct that apply to all IGM Financial directors, officers and employees. The Code of Conduct incorporates many policies relating to the conduct of directors, officers and employees, and covers a variety of relevant topics, such as anti-money laundering and privacy. Individuals subject to the Code of Conduct attest annually that they understand the requirements and have complied with its provisions.

Business units are responsible for management of legal and regulatory compliance risk, and implementing appropriate policies, procedures and controls. The Company's Compliance Departments are responsible for providing oversight of all regulated compliance activities. The Internal Audit Department also provides oversight and investigations concerning regulatory compliance matters.

CONTINGENCIES

The Company is subject to legal actions arising in the normal course of its business. In December 2018, a proposed class action was filed in the Ontario Superior Court against Mackenzie which alleges that the company should not have paid mutual fund trailing commissions to order execution only dealers.

Although it is difficult to predict the outcome of any such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

3) GOVERNANCE, OVERSIGHT AND STRATEGIC RISK

Governance, oversight and strategic risk is the risk of potential adverse impacts resulting from inadequate or inappropriate governance, oversight, management of incentives and conflicts, and strategic planning.

IGM Financial believes in the importance of good corporate governance and the central role played by directors in the governance process. We believe that sound corporate governance is essential to the well-being of the Company and its shareholders.

Oversight of IGM Financial is performed by the Board of Directors directly and through its five committees. The Company's President and Chief Executive Officer has overall responsibility for management of the Company. The Company's activities are carried out principally by three operating companies – Investors Group Inc., Mackenzie Financial Corporation and Investment Planning Counsel Inc. – each of which are managed by a President and Chief Executive Officer.

The Company has a business planning process that supports development of an annual business plan, approved by the Board of Directors, which incorporates objectives and targets for the Company. Components of management compensation are associated with the achievement of earnings targets and other objectives associated with the plan. Strategic plans and direction are part of this planning process and are integrated into the Company's risk management program.

ACQUISITION RISK

The Company is also exposed to risks related to its acquisitions. The Company undertakes thorough due diligence prior to completing an acquisition, but there is no assurance that the Company will achieve the expected strategic objectives or cost and revenue synergies subsequent to an acquisition. Subsequent changes in the economic environment and other unanticipated factors may affect the Company's ability to achieve expected earnings growth or expense reductions. The success of an acquisition is dependent on retaining assets under management, clients, and key employees of an acquired company.

4) REGULATORY DEVELOPMENTS

Regulatory development risk is the potential for changes to regulatory, legal, or tax requirements that may have an adverse impact upon the Company's business activities or financial results.

The Company is exposed to the risk of changes in laws, taxation and regulation that could have an adverse impact on the Company. Particular regulatory initiatives may have the effect of making the products of the Company's subsidiaries appear to be less competitive than the products of other financial service providers, to third party distribution channels and to clients. Regulatory differences that may impact the competitiveness of the Company's products include regulatory costs, tax treatment, disclosure requirements, transaction processes or other differences that may be as a result of differing regulation or application of regulation. Regulatory developments may also impact product structures, pricing, and dealer and advisor compensation. While the Company and its subsidiaries actively monitor such initiatives, and where feasible comment upon or discuss them with regulators, the ability of the Company and its subsidiaries to mitigate the imposition of differential regulatory treatment of financial products or services is limited.

5) BUSINESS RISK

GENERAL BUSINESS CONDITIONS

General Business Conditions Risk refers to the potential for an unfavourable impact on IGM Financial resulting from competitive or other external factors relating to the marketplace.

Global economic conditions, changes in equity markets, demographics and other factors including geopolitical risk and government instability, can affect investor confidence, income levels and savings decisions. This could result in reduced sales of IGM Financial's products and services and/or result in investors redeeming their investments. These factors may also affect the level and volatility of financial markets and the value of the Company's assets under management, as described more fully under the Risks Related to Assets Under Management section of this MD&A.

The Company, across its operating subsidiaries, is focused on communicating with clients and emphasizing the importance of financial planning across economic cycles. The Company and the industry continue to take steps to educate Canadian investors on the merits of financial planning, diversification and long-term investing. In periods of volatility, Consultants and independent financial advisors play a key role in assisting investors in maintaining perspective and focus on their long-term objectives.

Redemption rates for long-term funds are summarized in Table 25 and are discussed in the IG Wealth Management and Mackenzie Segment Operating Results sections of this MD&A.

PRODUCT/SERVICE OFFERING

There is potential for unfavourable impacts on IGM Financial resulting from inadequate product or service performance, quality or breadth.

TABLE 25: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

	2019 JUN. 30	2018 JUN. 30
IGM Financial Inc.		
IG Wealth Management	9.9 %	8.6 %
Mackenzie	16.2 %	15.3 %
Counsel	20.7 %	16.9 %

IGM Financial and its subsidiaries operate in a highly competitive environment, competing with other financial service providers, investment managers and product and service types. Client development and retention can be influenced by a number of factors, including products and services offered by competitors, relative service levels, relative pricing, product attributes, reputation and actions taken by competitors. This competition could have an adverse impact upon the Company's financial position and operating results. Please refer to The Competitive Landscape section of this MD&A for further discussion.

The Company provides Consultants, independent financial advisors, as well as retail and institutional clients with a high level of service and support and a broad range of investment products, with a focus on building enduring relationships. The Company's subsidiaries also continually review their respective product and service offering and pricing to ensure competitiveness in the marketplace.

The Company strives to deliver strong investment performance on its products relative to benchmarks and peers. Poor investment performance relative to benchmarks or peers could reduce the level of assets under management and sales and asset retention, as well as adversely impact our brands. Meaningful and/or sustained underperformance could affect the Company's results. The Company's objective is to cultivate investment processes and disciplines that provide it with a competitive advantage, and does so by diversifying its assets under management and product shelf by investment team, brand, asset class, mandate, style and geographic region.

BUSINESS/CLIENT RELATIONSHIPS

Business/Client relationships risk refers to the risk potential for unfavourable impacts on IGM Financial resulting from changes to other key relationships. These relationships primarily include IG Wealth Management clients and Consultants, Mackenzie retail distribution, strategic and significant business partners, clients of Mackenzie funds, and sub-advisors and other product suppliers.

IG Wealth Management Consultant network – IG Wealth Management derives all of its mutual fund sales through its

Consultant network. IG Wealth Management Consultants have regular direct contact with clients which can lead to a strong and personal client relationship based on the client's confidence in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on IG Wealth Management's results of operations and business prospects. IG Wealth Management is focused on strengthening its distribution network of Consultants and on responding to the complex financial needs of its clients by delivering a diverse range of products and services in the context of personalized financial advice, as discussed in the IG Wealth Management Review of the Business section of this MD&A.

Mackenzie – Mackenzie derives the majority of its mutual fund sales through third party financial advisors. Financial advisors generally offer their clients investment products in addition to, and in competition with Mackenzie. Mackenzie also derives sales of its investment products and services from its strategic alliance and institutional clients. Due to the nature of the distribution relationship in these relationships and the relative size of these accounts, gross sale and redemption activity can be more pronounced in these accounts than in a retail relationship. Mackenzie's ability to market its investment products is highly dependent on continued access to these distribution networks. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. Mackenzie is well positioned to manage this risk and to continue to build and enhance its distribution relationships. Mackenzie's diverse portfolio of financial products and its long-term investment performance record, marketing, educational and service support has made Mackenzie one of Canada's leading investment management companies. These factors are discussed further in the Mackenzie Review of the Business section of this MD&A.

PEOPLE RISK

People risk refers to the potential inability to attract or retain key employees or Consultants, develop to an appropriate level of proficiency, or manage personnel succession or transition.

Management, investment and distribution personnel play an important role in developing, implementing, managing and distributing products and services offered by IGM Financial. The loss of these individuals or an inability to attract, retain and motivate sufficient numbers of qualified personnel could affect IGM Financial's business and financial performance.

6) ENVIRONMENTAL AND SOCIAL RISKS

Environmental and social risk is the risk of financial loss or reputational damage resulting from environmental or social issues arising from our business operations or investment activities.

Environmental risks include issues such as climate change, biodiversity, pollution, waste, and the unsustainable use of water and other resources. Social risks include issues such as human rights, diversity, and community impacts.

IGM Financial has a long-standing commitment to responsible management, as articulated in the Company's Corporate Responsibility Statement approved by the Board of Directors. The Board's risk management oversight includes environmental and social risks.

Our commitment to responsible management is demonstrated through various mechanisms – including our Code of Conduct for our employees, contractors, and directors; our Supplier Code of Conduct for the firms that do business with us; our Respectful Workplace Policy; our Diversity Policy; our Environmental Policy; and other related policies.

IG Wealth Management and Mackenzie Investments are signatories to the Principles for Responsible Investment (PRI). Under the PRI, investors formally commit to incorporate environmental, social and governance (ESG) issues into their investment decision making and active ownership processes. In addition, IG Wealth Management, Mackenzie Investments and Investment Planning Counsel have implemented Responsible Investing Policies outlining the practices at each company.

We believe that financial services companies have an important role to play in addressing climate change. IGM Financial is a long-standing participant in the CDP (formerly Carbon Disclosure Project), which promotes corporate disclosures on greenhouse gas emissions and climate change management and includes reporting of our emissions and targets. For the 2018 survey, IGM was recognized by CDP as a corporate leader in climate change disclosure with a position on their Climate Change A List. IGM Financial also reports annually on its environmental, social and governance management and performance in its Corporate Responsibility Report available on our website. The information in these reports does not form a part of this document. The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) was established in response to investor demand for information on climate-related risks and opportunities. We are evaluating the TCFD recommendations which include a framework for consistent, voluntary climate-related financial disclosures that provide decision-useful information to investors and other stakeholders.

OUTLOOK

THE FINANCIAL SERVICES ENVIRONMENT

Canadians held \$4.4 trillion in discretionary financial assets with financial institutions at December 31, 2018 based on the most recent report from Investor Economics. The nature of holdings was diverse, ranging from demand deposits held for short-term cash management purposes to longer-term investments held for retirement purposes. Approximately 65% (\$2.9 trillion) of these financial assets are held within the context of a relationship with a financial advisor, and this is the primary channel serving the longer-term savings needs of Canadians. Of the \$1.5 trillion held outside of a financial advisory relationship, approximately 63% consisted of bank deposits.

Financial advisors represent the primary distribution channel for the Company's products and services, and the core emphasis of the Company's business model is to support these financial advisors as they work with clients to plan for and achieve their financial goals. Multiple sources of emerging research show significantly better financial outcomes for Canadians who use financial advisors compared to those who do not. The Company actively promotes the value of financial advice and the importance of a relationship with an advisor to develop and remain focused on long-term financial plans and goals.

Approximately 40% of Canadian discretionary financial assets or \$1.8 trillion resided in investment funds at December 31, 2018, making it the largest financial asset class held by Canadians. Other asset types include deposit products and direct securities such as stocks and bonds. Approximately 77% of investment funds are comprised of mutual fund products, with other product categories including segregated funds, hedge funds, pooled funds, closed end funds and exchange traded funds. With \$156 billion in investment fund assets under management at June 30, 2019, the Company is among the country's largest investment fund managers. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

Competition and technology have fostered a trend towards financial service providers offering a comprehensive range of proprietary products and services. Traditional distinctions between bank branches, full service brokerages, financial planning firms and insurance agent sales forces have become obscured as many of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf. Accordingly, the Canadian financial services industry is characterized by a number of large, diversified, vertically-integrated participants, similar to

IGM Financial, who offer both financial planning and investment management services.

Canadian banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Bank branches continue to place increased emphasis on both financial planning and mutual funds. In addition, each of the "big six" banks has one or more mutual fund management subsidiaries. Collectively, mutual fund assets of the "big six" bank-owned mutual fund managers and affiliated firms represented 46% of total industry long-term mutual fund assets at June 30, 2019.

The Canadian mutual fund industry continues to be very concentrated, with the ten largest firms and their subsidiaries representing 73% of industry long-term mutual fund assets and 73% of total mutual fund assets under management at June 30, 2019. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

Management believes that the financial services industry will continue to be influenced by the following trends:

- Shifting demographics as the number of Canadians in their prime savings and retirement years continue to increase.
- Changes in investor attitudes based on economic conditions.
- Continued importance of the role of the financial advisor.
- Public policy related to retirement savings.
- Changes in the regulatory environment.
- An evolving competitive landscape.
- Advancing and changing technology.

THE COMPETITIVE LANDSCAPE

IGM Financial and its subsidiaries operate in a highly competitive environment. IG Wealth Management and Investment Planning Counsel compete directly with other retail financial service providers, including other financial planning firms, as well as full service brokerages, banks and insurance companies. IG Wealth Management, Mackenzie and Investment Planning Counsel compete directly with other investment managers for assets under management, and their products compete with stocks, bonds and other asset classes for a share of the investment assets of Canadians.

Competition from other financial service providers, alternative product types or delivery channels, and changes in regulations or public preferences could impact the characteristics of product and service offerings of the Company, including pricing, product structures, dealer and advisor compensation and disclosure. The Company monitors developments on an ongoing basis, and

engages in policy discussions and develops product and service responses as appropriate.

IGM Financial continues to focus on its commitment to provide quality investment advice and financial products, service innovations, effective management of the Company and long-term value for its clients and shareholders. Management believes that the Company is well-positioned to meet competitive challenges and capitalize on future opportunities.

The Company enjoys several competitive strengths, including:

- Broad and diversified distribution with an emphasis on those channels emphasizing comprehensive financial planning through a relationship with a financial advisor.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.
- Benefits of being part of the Power Financial group of companies.

BROAD AND DIVERSIFIED DISTRIBUTION

IGM Financial's distribution strength is a competitive advantage. In addition to owning two of Canada's largest financial planning organizations, IG Wealth Management and Investment Planning

Counsel, IGM Financial has, through Mackenzie, access to distribution through over 30,000 independent financial advisors. Mackenzie also, in its growing strategic alliance business, partners with Canadian and U.S. manufacturing and distribution complexes to provide investment management to a number of retail investment fund mandates.

BROAD PRODUCT CAPABILITIES

IGM Financial's subsidiaries continue to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

ENDURING RELATIONSHIPS

IGM Financial enjoys significant advantages as a result of the enduring relationships that advisors enjoy with clients. In addition, the Company's subsidiaries have strong heritages and cultures which are challenging for competitors to replicate.

BENEFITS OF BEING PART OF THE POWER FINANCIAL GROUP OF COMPANIES

As part of the Power Financial group of companies, IGM Financial benefits through expense savings from shared service arrangements, as well as through access to distribution, products and capital.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

There were no changes to the Company's assumptions related to critical accounting estimates from those reported at December 31, 2018.

The Company completed its annual impairment tests of goodwill and indefinite life intangible assets based on March 31, 2019 financial information and determined there was no impairment in the value of those assets.

The Company tests the fair value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

These tests involve the use of estimates and assumptions appropriate in the circumstances. In assessing the recoverable amounts, valuation approaches are used that include discounted cash flow analysis and application of capitalization multiples to financial and operating metrics based upon precedent acquisition transactions and trading comparables. Assumptions and estimates employed include future changes in assets under management resulting from net sales and investment returns, pricing and profit margin changes, discount rates, and capitalization multiples.

CHANGES IN ACCOUNTING POLICIES

IFRS 16 LEASES (IFRS 16)

As of January 1, 2019, the Company adopted IFRS 16 using the modified retrospective method with no restatement of comparative financial information. Under this approach, the Company recognized a lease liability of \$105.5 million equal to the present value of the remaining lease payments discounted

using the Company's incremental borrowing rate at January 1, 2019. The weighted average discount rate applied was 4.4%. A right-of-use asset of \$96.1 million representing the Company's property leases was also recognized at its carrying amount as if IFRS 16 had been applied since each lease commencement date, net of the accumulated amortization that would have been recognized up to January 1, 2019. The difference between the right-of-use asset and the lease liability of \$9.4 million was recognized as an adjustment to retained earnings as at January 1, 2019. The following practical expedients were applied on transition:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Accounted for leases for which the remaining lease term ends within 12 months of the date of initial application as a short-term lease.
- Relied on its assessment of whether leases are onerous applying IAS 37, Provisions, Contingent Liabilities and Contingent Assets, immediately before the date of initial application as an alternative to performing an impairment review.

Amortization expense increased due to the amortization of the right-of-use asset and interest expense increased due to the imputed interest on the lease liability; however total expenses are not noticeably different due to the offsetting decrease to operating lease expense.

Table 26 details the impact of IFRS 16 on the Consolidated Balance Sheet as at January 1, 2019.

FUTURE ACCOUNTING CHANGES

The Company continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Company's operations.

OTHER

The IASB is currently undertaking a number of projects which will result in changes to existing IFRS standards that may affect the Company. Updates will be provided as the projects develop.

TABLE 26: IMPACT OF IFRS 16 ON BALANCE SHEET

(\$ millions)	DECEMBER 31, 2018	ADJUSTMENT DUE TO ADOPTION OF IFRS 16	JANUARY 1, 2019
Assets			
Other assets ⁽¹⁾	\$ 46.5	\$ (0.1)	\$ 46.4
Capital assets	138.6	96.1	234.7
		<u>\$ 96.0</u>	
Liabilities			
Accounts payable and accrued liabilities ⁽¹⁾	\$ 397.4	\$ (1.9)	\$ 395.5
Lease obligations	–	105.5	105.5
Deferred income taxes	295.7	(2.0)	293.7
Retained earnings	2,840.6	(5.6)	2,835.0
		<u>\$ 96.0</u>	

(1) Write-off of free rent inducement on capitalized leases.

INTERNAL CONTROL OVER FINANCIAL REPORTING

During the second quarter of 2019, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OTHER INFORMATION

TRANSACTIONS WITH RELATED PARTIES

There were no changes to the types of related party transactions from those reported at December 31, 2018. For further information on transactions involving related parties, see Notes 8 and 25 to the Company's Annual Financial Statements.

June 30, 2019 totalled 10,764,552, of which 5,514,075 were exercisable. As at July 29, 2019, outstanding common shares totalled 238,265,539 and outstanding stock options totalled 10,763,152 of which 5,512,675 were exercisable.

SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at www.sedar.com.

OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at June 30, 2019 totalled 238,265,539. Outstanding stock options as at

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited) (in thousands of Canadian dollars, except per share amounts)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2019	2018	2019	2018
Revenues				
Management fees	\$ 567,422	\$ 562,781	\$ 1,112,646	\$ 1,119,382
Administration fees	104,128	107,123	205,827	214,657
Distribution fees	94,235	89,897	183,509	183,217
Net investment income and other	17,859	18,577	38,092	32,786
Proportionate share of associates' earnings (Note 6)	20,264	37,583	52,914	75,567
	803,908	815,961	1,592,988	1,625,609
Expenses				
Commission	275,853	270,164	550,519	556,262
Non-commission	259,651	252,627	534,089	505,772
Interest	27,648	28,770	52,864	59,034
	563,152	551,561	1,137,472	1,121,068
Earnings before income taxes	240,756	264,400	455,516	504,541
Income taxes	55,632	58,483	100,676	110,873
Net earnings	185,124	205,917	354,840	393,668
Perpetual preferred share dividends	–	2,212	2,213	4,425
Net earnings available to common shareholders	\$ 185,124	\$ 203,705	\$ 352,627	\$ 389,243
Earnings per share (in dollars) (Note 14)				
– Basic	\$ 0.77	\$ 0.85	\$ 1.47	\$ 1.62
– Diluted	\$ 0.77	\$ 0.85	\$ 1.47	\$ 1.61

(See accompanying notes to interim condensed consolidated financial statements.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) (in thousands of Canadian dollars)	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2019	2018	2019	2018
Net earnings	\$ 185,124	\$ 205,917	\$ 354,840	\$ 393,668
Other comprehensive income (loss), net of tax				
Items that will not be reclassified to Net earnings				
Fair value through other comprehensive income investments				
Other comprehensive income (loss), net of tax of \$(3,186), \$466, \$(2,073) and \$895	20,419	(3,006)	13,281	(5,752)
Employee benefits				
Net actuarial gains (losses), net of tax of \$6,067, \$(3,953), \$13,455 and \$(2,684)	(16,407)	10,690	(36,387)	7,263
Investment in associates – employee benefits and other				
Other comprehensive income (loss), net of tax of nil	(3,204)	1,444	(9,895)	(1,431)
Items that may be reclassified subsequently to Net earnings				
Investment in associates and other				
Other comprehensive income (loss), net of tax of \$3,765, \$2,580, \$3,119 and \$(1,842)	(30,092)	9,025	(734)	49,962
	(29,284)	18,153	(33,735)	50,042
Total comprehensive income	\$ 155,840	\$ 224,070	\$ 321,105	\$ 443,710

(See accompanying notes to interim condensed consolidated financial statements.)

CONSOLIDATED BALANCE SHEETS

(unaudited)
(in thousands of Canadian dollars)

JUNE 30
2019

DECEMBER 31
2018

Assets

Cash and cash equivalents	\$ 601,310	\$ 650,228
Other investments (Note 3)	369,542	459,911
Client funds on deposit	514,234	546,787
Accounts and other receivables	397,093	319,609
Income taxes recoverable	28,251	9,316
Loans (Note 4)	7,650,179	7,738,031
Derivative financial instruments	19,006	16,364
Other assets	50,254	46,531
Investment in associates (Note 6)	1,777,276	1,651,304
Capital assets (Note 2)	226,684	138,647
Capitalized sales commissions	122,380	105,044
Deferred income taxes	71,078	75,607
Intangible assets	1,218,519	1,191,068
Goodwill	2,660,267	2,660,267
	\$ 15,706,073	\$ 15,608,714

Liabilities

Accounts payable and accrued liabilities	\$ 428,451	\$ 397,379
Income taxes payable	3,867	51,894
Derivative financial instruments	25,595	28,990
Deposits and certificates	548,273	568,799
Other liabilities	473,481	444,173
Obligations to securitization entities	7,337,066	7,370,193
Lease obligations (Note 2)	99,514	–
Deferred income taxes	293,092	295,719
Long-term debt (Note 7)	2,100,000	1,850,000
	11,309,339	11,007,147

Shareholders' Equity

Share capital		
Perpetual preferred shares	–	150,000
Common shares	1,596,818	1,611,263
Contributed surplus	47,099	45,536
Retained earnings	2,853,818	2,840,566
Accumulated other comprehensive income (loss)	(101,001)	(45,798)
	4,396,734	4,601,567
	\$ 15,706,073	\$ 15,608,714

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on July 31, 2019.

(See accompanying notes to interim condensed consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30

(unaudited) (in thousands of Canadian dollars)	SHARE CAPITAL			RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Note 11)	TOTAL SHAREHOLDERS' EQUITY
	PERPETUAL PREFERRED SHARES (Note 8)	COMMON SHARES (Note 8)	CONTRIBUTED SURPLUS			
2019						
Balance, beginning of period						
As previously reported	\$ 150,000	\$ 1,611,263	\$ 45,536	\$ 2,840,566	\$ (45,798)	\$ 4,601,567
Change in accounting policy (Note 2) IFRS 16	-	-	-	(5,568)	-	(5,568)
As restated	150,000	1,611,263	45,536	2,834,998	(45,798)	4,595,999
Net earnings	-	-	-	354,840	-	354,840
Other comprehensive income (loss), net of tax	-	-	-	-	(33,735)	(33,735)
Total comprehensive income	-	-	-	354,840	(33,735)	321,105
Redemption of preferred shares	(150,000)	-	-	-	-	(150,000)
Common shares						
Issued under stock option plan	-	4,069	-	-	-	4,069
Purchased for cancellation	-	(18,514)	-	-	-	(18,514)
Stock options						
Current period expense	-	-	1,782	-	-	1,782
Exercised	-	-	(219)	-	-	(219)
Perpetual preferred share dividends	-	-	-	(2,213)	-	(2,213)
Common share dividends	-	-	-	(269,522)	-	(269,522)
Transfer out of fair value through other comprehensive income	-	-	-	21,468	(21,468)	-
Common share cancellation excess & other	-	-	-	(85,753)	-	(85,753)
Balance, end of period	\$ -	\$ 1,596,818	\$ 47,099	\$ 2,853,818	\$ (101,001)	\$ 4,396,734
2018						
Balance, beginning of period	\$ 150,000	\$ 1,602,726	\$ 42,633	\$ 2,620,797	\$ (71,113)	\$ 4,345,043
Net earnings	-	-	-	393,668	-	393,668
Other comprehensive income (loss), net of tax	-	-	-	-	50,042	50,042
Total comprehensive income	-	-	-	393,668	50,042	443,710
Common shares						
Issued under stock option plan	-	6,850	-	-	-	6,850
Stock options						
Current period expense	-	-	1,823	-	-	1,823
Exercised	-	-	(693)	-	-	(693)
Perpetual preferred share dividends	-	-	-	(4,425)	-	(4,425)
Common share dividends	-	-	-	(270,916)	-	(270,916)
Other	-	-	-	(5,064)	-	(5,064)
Balance, end of period	\$ 150,000	\$ 1,609,576	\$ 43,763	\$ 2,734,060	\$ (21,071)	\$ 4,516,328

(See accompanying notes to interim condensed consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)
(in thousands of Canadian dollars)

SIX MONTHS ENDED JUNE 30

	2019	2018
Operating activities		
Earnings before income taxes	\$ 455,516	\$ 504,541
Income taxes paid	(142,689)	(83,642)
Adjustments to determine net cash from operating activities		
Capitalized sales commission amortization	10,041	6,277
Capitalized sales commissions paid	(27,378)	(28,961)
Amortization of capital and intangible assets	39,632	27,669
Proportionate share of associates' earnings, net of dividends received	(10,781)	(33,711)
Pension and other post-employment benefits	(389)	(19,543)
Changes in operating assets and liabilities and other	(15,747)	926
Cash from operating activities before restructuring provision payments	308,205	373,556
Restructuring provision cash payments	(22,110)	(36,352)
	286,095	337,204
Financing activities		
Net increase (decrease) in deposits and certificates	1,187	(658)
Increase in obligations to securitization entities	739,827	711,093
Repayments of obligations to securitization entities and other	(807,558)	(864,280)
Repayments of lease obligations	(11,293)	–
Issue of debentures	250,000	–
Repayment of debentures	–	(150,000)
Redemption of preferred shares	(150,000)	–
Issue of common shares	3,850	6,157
Common shares purchased for cancellation	(99,963)	–
Perpetual preferred share dividends paid	(4,425)	(4,425)
Common share dividends paid	(270,996)	(270,826)
	(349,371)	(572,939)
Investing activities		
Purchase of other investments	(97,461)	(82,321)
Proceeds from the sale of other investments	56,258	43,335
Increase in loans	(750,826)	(855,814)
Repayment of loans and other	839,671	921,422
Net additions to capital assets	(10,032)	(7,026)
Net cash used in additions to intangible assets and acquisitions	(36,849)	(29,009)
Investment in Personal Capital Corporation	(66,811)	–
Proceeds from substantial issuer bid (Note 6)	80,408	–
	14,358	(9,413)
Decrease in cash and cash equivalents	(48,918)	(245,148)
Cash and cash equivalents, beginning of period	650,228	966,843
Cash and cash equivalents, end of period	\$ 601,310	\$ 721,695
Cash	\$ 45,890	\$ 51,585
Cash equivalents	555,420	670,110
	\$ 601,310	\$ 721,695
Supplemental disclosure of cash flow information related to operating activities		
Interest and dividends received	\$ 155,539	\$ 152,747
Interest paid	\$ 129,325	\$ 140,504

(See accompanying notes to interim condensed consolidated financial statements.)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 (unaudited) (In thousands of Canadian dollars, except shares and per share amounts)

NOTE 1 CORPORATE INFORMATION

IGM Financial Inc. (the Company) is a publicly listed company (TSX: IGM), incorporated and domiciled in Canada. The registered address of the Company is 447 Portage Avenue, Winnipeg, Manitoba, Canada. The Company is controlled by Power Financial Corporation.

IGM Financial Inc. is a wealth and asset management company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly within the advice segment of the financial services market. The Company's wholly-owned principal subsidiaries are Investors Group Inc. and Mackenzie Financial Corporation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited Interim Condensed Consolidated Financial Statements of the Company (Interim Financial Statements) have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using the accounting policies as set out in this note and in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2018. The Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements in the 2018 IGM Financial Inc. Annual Report.

CHANGES IN ACCOUNTING POLICIES

IFRS 16 LEASES (IFRS 16)

As of January 1, 2019, the Company adopted IFRS 16 using the modified retrospective method with no restatement of comparative financial information. Under this approach, the Company recognized a lease liability of \$105.5 million equal to the present value of the remaining lease payments discounted using the Company's incremental borrowing rate at January 1, 2019. The weighted average discount rate applied was 4.4%. A right-of-use asset of \$96.1 million representing the Company's property leases was also recognized at its carrying amount as if IFRS 16 had been applied since each lease commencement date, net of the accumulated amortization that would have been recognized up to January 1, 2019. The difference between the right-of-use asset and the lease liability of \$9.4 million was recognized as an adjustment to retained earnings as at January 1, 2019. The following practical expedients were applied on transition:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Accounted for leases for which the remaining lease term ends within 12 months of the date of initial application as a short-term lease.
- Relied on its assessment of whether leases are onerous applying IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, immediately before the date of initial application as an alternative to performing an impairment review.

Amortization expense increased due to the amortization of the right-of-use asset and interest expense increased due to the imputed interest on the lease liability; however total expenses are not materially different due to the offsetting decrease to operating lease expense.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 16 LEASES (IFRS 16) (continued)

Impact of the changes in accounting policies on the Consolidated Balance Sheet:

	DECEMBER 31, 2018	ADJUSTMENT DUE TO ADOPTION OF IFRS 16	JANUARY 1, 2019
Assets			
Other assets ⁽¹⁾	\$ 46,531	\$ (61)	\$ 46,470
Capital assets	138,647	<u>96,065</u>	234,712
		<u>\$ 96,004</u>	
Liabilities & Shareholders' Equity			
Accounts payable and accrued liabilities ⁽¹⁾	\$ 397,379	\$ (1,958)	\$ 395,421
Lease obligations	—	<u>105,539</u>	105,539
Deferred income taxes	295,719	<u>(2,009)</u>	293,710
Retained earnings	2,840,566	<u>(5,568)</u>	2,834,998
		<u>\$ 96,004</u>	

(1) Write-off of free rent inducement on capitalized leases

LEASES

For contracts that contain a lease, the Company recognizes a right-of-use asset and a lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term and is recorded in Non-commission expense. Imputed interest on the lease liability is recorded in Interest expense.

Lease payments included in the measurement of the lease liability comprises fixed payments less any lease incentives receivable, variable payments that depend on an index or a rate, and payments or penalties for terminating the lease, if any. The lease payments are discounted using the Company's incremental borrowing rate, which is applied to portfolios of leases with reasonably similar characteristics.

The Company does not recognize a right-of-use asset or lease liability for leases that, at commencement date, have a lease term of 12 months or less, and leases for which the underlying asset is of low value. The Company recognizes the payments associated with these leases as an expense on a straight-line basis over the term of the lease.

NOTE 3 OTHER INVESTMENTS

	JUNE 30, 2019		DECEMBER 31, 2018	
	COST	FAIR VALUE	COST	FAIR VALUE
Fair value through other comprehensive income (FVTOCI)				
Corporate investments	\$ 225,440	\$ 284,753	\$ 303,619	\$ 372,396
Fair value through profit or loss (FVTPL)				
Equity securities	1,543	1,741	16,976	12,915
Proprietary investment funds	82,127	83,048	78,504	74,600
	83,670	84,789	95,480	87,515
	\$ 309,110	\$ 369,542	\$ 399,099	\$ 459,911

In January 2019, the Company invested an additional amount of \$66.8 million (USD \$50.0 million) in Personal Capital Corporation which increased its voting interest to 22.7% and resulted in reclassification of the investment in Personal Capital Corporation from FVTOCI to the equity method (Note 6).

The Company invested an additional \$18.2 million in Wealthsimple Financial Corporation in the second quarter of 2019 and \$36.1 million for the six months ended June 30, 2019.

The Company invested an additional \$11.0 million in Portag3 Ventures II LP in the second quarter of 2019.

NOTE 4 LOANS

	CONTRACTUAL MATURITY			JUNE 30 2019 TOTAL	DECEMBER 31 2018 TOTAL
	1 YEAR OR LESS	1 – 5 YEARS	OVER 5 YEARS		
Amortized cost					
Residential mortgages	\$ 1,415,587	\$ 6,226,556	\$ 6,897	\$ 7,649,040	\$ 7,734,529
Less: Allowance for expected credit losses				708	801
				7,648,332	7,733,728
Fair value through profit or loss				1,847	4,303
				\$ 7,650,179	\$ 7,738,031

The change in the allowance for expected credit losses is as follows:

Balance, beginning of period	\$ 801	\$ 806
Write-offs, net of recoveries	(513)	(326)
Provision for credit losses	420	321
Balance, end of period	\$ 708	\$ 801

Total credit impaired loans as at June 30, 2019 were \$4,032 (December 31, 2018 – \$3,271).

Total interest income on loans was \$109.6 million (2018 – \$105.3 million). Total interest expense on obligations to securitization entities, related to securitized loans, was \$87.7 million (2018 – \$81.2 million). Gains realized on the sale of residential mortgages totalled \$1.7 million (2018 – \$1.5 million). Fair value adjustments related to mortgage banking operations totalled negative \$5.0 million (2018 – negative \$5.8 million). These amounts were included in Net investment income and other. Net investment income and other also includes other mortgage banking related items including portfolio insurance, issue costs, and other items.

NOTE 5 SECURITIZATIONS

The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as the Company retains prepayment risk and certain elements of credit risk. Accordingly, the Company has retained these mortgages on its balance sheets and has recorded offsetting liabilities for the net proceeds received as Obligations to securitization entities which are recorded at amortized cost.

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap transaction whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of \$9.1 million at June 30, 2019 (December 31, 2018 – positive \$4.9 million).

Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, the Company has provided cash reserves for credit enhancement which are recorded at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to the Company's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
JUNE 30, 2019			
Carrying value			
NHA MBS and CMB Program	\$ 4,139,420	\$ 4,174,246	\$ (34,826)
Bank sponsored ABCP	3,111,454	3,162,820	(51,366)
Total	\$ 7,250,874	\$ 7,337,066	\$ (86,192)
Fair value	\$ 7,350,662	\$ 7,460,312	\$ (109,650)
DECEMBER 31, 2018			
Carrying value			
NHA MBS and CMB Program	\$ 4,246,668	\$ 4,250,641	\$ (3,973)
Bank sponsored ABCP	3,102,498	3,119,552	(17,054)
Total	\$ 7,349,166	\$ 7,370,193	\$ (21,027)
Fair value	\$ 7,405,170	\$ 7,436,873	\$ (31,703)

The carrying value of Obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

NOTE 6 INVESTMENT IN ASSOCIATES

	LIFECO	CHINA AMC	PERSONAL CAPITAL	TOTAL
JUNE 30, 2019				
Balance, beginning of period	\$ 967,829	\$ 683,475	\$ –	\$ 1,651,304
Transfer from corporate investments (FVTOCI)	–	–	216,952	216,952
Proceeds from substantial issuer bid	(80,408)	–	–	(80,408)
Dividends received	(31,832)	(10,301)	–	(42,133)
Proportionate share of:				
Earnings (losses)	53,666	15,265	(8,017)	60,914
Associate's one-time loss	(8,000)	–	–	(8,000)
Other comprehensive income (loss) and other adjustments	8,808	(26,141)	(4,020)	(21,353)
Balance, end of period	\$ 910,063	\$ 662,298	\$ 204,915	\$ 1,777,276
JUNE 30, 2018				
Balance, beginning of period	\$ 901,405	\$ 647,880	\$ –	\$ 1,549,285
Dividends received	(30,916)	(12,156)	–	(43,072)
Proportionate share of:				
Earnings	60,030	15,537	–	75,567
Other comprehensive income (loss) and other adjustments	28,950	18,677	–	47,627
Balance, end of period	\$ 959,469	\$ 669,938	\$ –	\$ 1,629,407

The Company uses the equity method to account for its investments in Great-West Lifeco Inc., China Asset Management Co., Ltd. and Personal Capital Corporation as it exercises significant influence.

GREAT-WEST LIFECO INC. (LIFECO)

At June 30, 2019, the Company held 37,337,133 (December 31, 2018 – 39,737,388) shares of Lifeco, which represented an equity interest of 4.0% (December 31, 2018 – 4.0%).

In April 2019, the Company participated on a proportionate basis in the Lifeco substantial issuer bid by selling 2,400,255 of its shares in Lifeco for proceeds of \$80.4 million.

In June 2019, Lifeco recorded a one-time loss in relation to the sale of substantially all of its United States individual life insurance and annuity business. The Company's after-tax proportionate share of this loss was \$8.0 million.

CHINA ASSET MANAGEMENT CO., LTD. (CHINA AMC)

China AMC is an asset management company established in Beijing, China and is controlled by CITIC Securities Company Limited.

As at June 30, 2019, the Company held a 13.9% equity interest in China AMC (2018 – 13.9%).

PERSONAL CAPITAL CORPORATION (PERSONAL CAPITAL)

In January 2019, the Company invested an additional amount of \$66.8 million (USD \$50.0 million) in Personal Capital which increased its voting interest to 22.7% (June 30, 2018 – 15.5%) and, combined with its board representation, resulted in the Company exercising significant influence.

As at June 30, 2019, the Company held a 24.9% equity interest in Personal Capital. IGM Financial's equity earnings from Personal Capital includes its proportionate share of Personal Capital's net income adjusted by IGM Financial's amortization of intangible assets that it recognized as part of its investment in the company.

NOTE 7 LONG-TERM DEBT

On March 20, 2019, the Company issued \$250.0 million 4.206% debentures maturing March 21, 2050. The net proceeds were used by the Company to fund the redemption of \$150.0 million of its issued and outstanding 5.90% Non-Cumulative First Preferred Shares, Series B and for general corporate purposes. The Company redeemed the Series B Preferred Shares on April 30, 2019.

NOTE 8 SHARE CAPITAL

AUTHORIZED

Unlimited number of:

- First preferred shares, issuable in series
- Second preferred shares, issuable in series
- Class 1 non-voting shares
- Common shares, no par value

ISSUED AND OUTSTANDING

	JUNE 30, 2019		JUNE 30, 2018	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Perpetual preferred shares – classified as equity:				
First preferred shares, Series B	–	\$ –	6,000,000	\$ 150,000
Common shares:				
Balance, beginning of period	240,885,317	\$ 1,611,263	240,666,131	\$ 1,602,726
Issued under Stock Option Plan	143,010	4,069	159,715	6,850
Purchased for cancellation	(2,762,788)	(18,514)	–	–
Balance, end of period	238,265,539	\$ 1,596,818	240,825,846	\$ 1,609,576

PERPETUAL PREFERRED SHARES

The Company redeemed the \$150.0 million First preferred shares, Series B on April 30, 2019.

NORMAL COURSE ISSUER BID

The Company commenced a normal course issuer bid on March 26, 2019 which is effective until the earlier of March 25, 2020 and the date on which the Corporation has purchased the maximum number of common shares permitted under the Normal Course Issuer Bid. Pursuant to this bid, the Company may purchase up to 4.0 million or 1.7% of its common shares outstanding as at March 14, 2019. The Company's previous normal course issuer bid expired on March 19, 2018.

In the second quarter of 2019, there were 2,496,695 shares (2018 – nil) purchased at a cost of \$90.8 million. In the six months ended June 30, 2019, there were 2,762,788 shares (2018 – nil) purchased at a cost of \$100.0 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

In connection with its normal course issuer bid, the Company has established an automatic securities purchase plan for its common shares. The automatic securities purchase plan provides standard instructions regarding how the Company's common shares are to be purchased under its normal course issuer bid during certain pre-determined trading blackout periods. Outside of these pre-determined trading blackout periods, purchases under the Company's normal course issuer bid will be completed based upon management's discretion.

NOTE 9 CAPITAL MANAGEMENT

The capital management policies, procedures and activities of the Company are discussed in the Capital Resources section of the Company's Management's Discussion and Analysis contained in the Second Quarter 2019 Report to Shareholders and in Note 17 to the Consolidated Financial Statements in the 2018 IGM Financial Inc. Annual Report and have not changed significantly since December 31, 2018.

NOTE 10 SHARE-BASED PAYMENTS

STOCK OPTION PLAN

	JUNE 30 2019	DECEMBER 31 2018
Common share options		
– Outstanding	10,764,552	9,701,894
– Exercisable	5,514,075	4,742,050

In the second quarter of 2019, the Company granted 26,230 options to employees (2018 – 17,875). In the six months ended June 30, 2019, the Company granted 1,511,540 options to employees (2018 – 1,336,265). The weighted- average fair value of options granted during the six months ended June 30, 2019 has been estimated at \$1.82 per option (2018 – \$2.56) using the Black-Scholes option pricing model. The weighted-average closing share price at the grant dates was \$34.35. The assumptions used in these valuation models include:

	SIX MONTHS ENDED JUNE 30	
	2019	2018
Exercise price	\$ 34.34	\$ 39.29
Risk-free interest rate	2.07%	2.35%
Expected option life	7 years	6 years
Expected volatility	18.00%	17.00%
Expected dividend yield	6.55%	5.73%

Expected volatility has been estimated based on the historic volatility of the Company's share price over seven years which is reflective of the expected option life. Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date.

NOTE 11 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	EMPLOYEE BENEFITS	OTHER INVESTMENTS	INVESTMENT IN ASSOCIATES AND OTHER	TOTAL
JUNE 30, 2019				
Balance, beginning of period	\$ (149,052)	\$ 57,234	\$ 46,020	\$ (45,798)
Other comprehensive income (loss)	(36,387)	13,281	(10,629)	(33,735)
Transfer out of FVTOCI	–	(21,468)	–	(21,468)
Balance, end of period	\$ (185,439)	\$ 49,047	\$ 35,391	\$ (101,001)
JUNE 30, 2018				
Balance, beginning of period	\$ (132,529)	\$ 39,068	\$ 22,348	\$ (71,113)
Other comprehensive income (loss)	7,263	(5,752)	48,531	50,042
Balance, end of period	\$ (125,266)	\$ 33,316	\$ 70,879	\$ (21,071)

Amounts are recorded net of tax.

NOTE 12 RISK MANAGEMENT

The risk management policies and procedures of the Company are discussed in the Financial Instruments Risk section of the Company's Management's Discussion and Analysis contained in the Second Quarter 2019 Report to Shareholders and in Note 20 to the Consolidated Financial Statements in the 2018 IGM Financial Inc. Annual Report and have not changed significantly since December 31, 2018.

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values are management's estimates and are calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and are matters of significant judgment.

All financial instruments measured at fair value and those for which fair value is disclosed are classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation.

Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the most advantageous market, utilizing a hierarchy of three different valuation techniques, based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data; and

Level 3 – Unobservable inputs that are supported by little or no market activity. Valuation techniques are primarily model-based.

Markets are considered inactive when transactions are not occurring with sufficient regularity. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In those instances where traded markets are not considered sufficiently active, fair value is measured using valuation models which may utilize predominantly

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

observable market inputs (Level 2) or may utilize predominantly non-observable market inputs (Level 3). Management considers all reasonably available information including indicative broker quotations, any available pricing for similar instruments, recent arm's length market transactions, any relevant observable market inputs, and internal model-based estimates. Management exercises judgment in determining the most appropriate inputs and the weighting ascribed to each input as well as in the selection of valuation methodologies.

Fair value is determined using the following methods and assumptions:

Other investments and other financial assets and financial liabilities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.

Loans classified as Level 2 are valued using market interest rates for loans with similar credit risk and maturity.

Loans classified as Level 3 are valued by discounting the expected future cash flows at prevailing market yields.

Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.

Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is valued using quoted prices for each debenture available in the market.

Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

Level 1 financial instruments include exchange-traded equity investments and open-end investment fund units and other financial liabilities in instances where there are quoted prices available from active markets.

Level 2 assets and liabilities include fixed income securities, loans, derivative financial instruments, deposits and certificates and long-term debt. The fair value of fixed income securities is determined using quoted market prices or independent dealer price quotes. The fair value of derivative financial instruments and deposits and certificates are determined using valuation models, discounted cash flow methodologies, or similar techniques using primarily observable market inputs. The fair value of long-term debt is determined using indicative broker quotes.

Level 3 assets and liabilities include investments with little or no trading activity valued using broker-dealer quotes, loans, other financial assets, obligations to securitization entities and derivative financial instruments. Derivative financial instruments consist of principal reinvestment account swaps which represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. Fair value is determined by discounting the projected cashflows of the swaps. The notional amount, which is an input used to determine the fair value of the swap, is determined using an average unobservable prepayment rate of 15% which is based on historical prepayment patterns. An increase (decrease) in the assumed mortgage prepayment rate increases (decreases) the notional amount of the swap.

The following table presents the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table also excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities and certain other financial liabilities.

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

		FAIR VALUE			
	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
JUNE 30, 2019					
Financial assets recorded at fair value					
Other investments					
– FVTOCI	\$ 284,753	\$ –	\$ –	\$ 284,753	\$ 284,753
– FVTPL	84,789	84,170	–	619	84,789
Loans					
– FVTPL	1,847	–	1,847	–	1,847
Derivative financial instruments	19,006	–	15,223	3,783	19,006
Financial assets recorded at amortized cost					
Loans					
– Amortized cost	7,648,332	–	398,520	7,350,662	7,749,182
Financial liabilities recorded at fair value					
Derivative financial instruments	25,595	–	12,719	12,876	25,595
Other financial liabilities	–	–	–	–	–
Financial liabilities recorded at amortized cost					
Deposits and certificates	548,273	–	548,678	–	548,678
Obligations to securitization entities	7,337,066	–	–	7,460,312	7,460,312
Long-term debt	2,100,000	–	2,468,145	–	2,468,145
DECEMBER 31, 2018					
Financial assets recorded at fair value					
Other investments					
– FVTOCI	\$ 372,396	\$ –	\$ –	\$ 372,396	\$ 372,396
– FVTPL	87,515	86,963	–	552	87,515
Loans					
– FVTPL	4,303	–	4,303	–	4,303
Derivative financial instruments	16,364	–	7,179	9,185	16,364
Financial assets recorded at amortized cost					
Loans					
– Amortized cost	7,733,728	–	380,372	7,405,170	7,785,542
Financial liabilities recorded at fair value					
Derivative financial instruments	28,990	–	24,704	4,286	28,990
Other financial liabilities	8,237	8,235	2	–	8,237
Financial liabilities recorded at amortized cost					
Deposits and certificates	568,799	–	569,048	–	569,048
Obligations to securitization entities	7,370,193	–	–	7,436,873	7,436,873
Long-term debt	1,850,000	–	2,050,299	–	2,050,299

There were no significant transfers between Level 1 and Level 2 in 2019 and 2018.

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table provides a summary of changes in Level 3 assets and liabilities measured at fair value on a recurring basis.

	BALANCE JANUARY 1	GAINS/ (LOSSES) INCLUDED IN NET EARNINGS ⁽¹⁾	GAINS/(LOSSES) INCLUDED IN OTHER COMPREHENSIVE INCOME	PURCHASES AND ISSUANCES	SETTLEMENTS	TRANSFERS IN/OUT	BALANCE JUNE 30
JUNE 30, 2019							
Other investments							
– FVTOCI	\$ 372,396	\$ –	\$ 15,354	\$ 47,144	\$ –	\$ (150,141) ⁽²⁾	\$ 284,753
– FVTPL	552	67	–	–	–	–	619
Derivative financial instruments, net	4,899	(13,138)	–	(1,144)	(290)	–	(9,093)
JUNE 30, 2018							
Other investments							
– FVTOCI	\$ 262,825	\$ –	\$ (6,647)	\$ 65,166	\$ –	\$ –	\$ 321,344
– FVTPL	661	75	–	–	–	(101)	635
Derivative financial instruments, net	4,095	(4,699)	–	297	(7,265)	–	6,958

(1) Included in Net investment income in the Consolidated Statements of Earnings.

(2) Reclassification of investment in Personal Capital from Other investments (FVTOCI) to Investment in associates (equity method).

NOTE 14 EARNINGS PER COMMON SHARE

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2019	2018	2019	2018
Earnings				
Net earnings	\$ 185,124	\$ 205,917	\$ 354,840	\$ 393,668
Perpetual preferred share dividends	–	2,212	2,213	4,425
Net earnings available to common shareholders	\$ 185,124	\$ 203,705	\$ 352,627	\$ 389,243
Number of common shares (in thousands)				
Weighted average number of common shares outstanding	238,968	240,810	239,944	240,784
Add: Potential exercise of outstanding stock options ⁽¹⁾	92	183	–	252
Average number of common shares outstanding – diluted basis	239,060	240,993	239,944	241,036
Earnings per common share (in dollars)				
Basic	\$ 0.77	\$ 0.85	\$ 1.47	\$ 1.62
Diluted	\$ 0.77	\$ 0.85	\$ 1.47	\$ 1.61

(1) Excludes 1,587 thousand shares for the three months ended June 30, 2019 (2018 – 1,283 thousand) related to outstanding stock options that were anti-dilutive. Excludes 2,052 thousand shares for the six months ended June 30, 2019 (2018 – 977 thousand) related to outstanding stock options that were anti-dilutive.

NOTE 15 SEGMENTED INFORMATION

The Company's reportable segments are:

- IG Wealth Management
- Mackenzie Investments
- Corporate and Other

These segments reflect the Company's internal financial reporting and performance measurement. In the third quarter of 2018, the Company announced that it has rebranded Investors Group as IG Wealth Management.

IG Wealth Management earns fee-based revenues in the conduct of its core business activities which are primarily related to the distribution, management and administration of its investment funds. It also earns fee revenues from the provision of brokerage services and the distribution of insurance and banking products. In addition, IG Wealth Management earns intermediary revenues primarily from mortgage banking and servicing activities and from the assets funded by deposit and certificate products.

Mackenzie Investments earns fee-based revenues from services it provides as fund manager to its investment funds and as investment advisor to sub-advisory and institutional accounts.

Corporate and Other includes Investment Planning Counsel, equity income from its investment in Lifeco, China AMC and Personal Capital (Note 6), net investment income on unallocated investments, other income, and also includes consolidation elimination entries.

2019

THREE MONTHS ENDED JUNE 30	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 371,929	\$ 176,240	\$ 19,253	\$ 567,422
Administration fees	75,129	24,506	4,493	104,128
Distribution fees	44,639	1,545	48,051	94,235
Net investment income and other	13,522	868	3,469	17,859
Proportionate share of associates' earnings	–	–	28,264	28,264
	505,219	203,159	103,530	811,908
Expenses				
Commission	157,468	73,550	44,835	275,853
Non-commission	152,900	84,876	21,875	259,651
	310,368	158,426	66,710	535,504
Earnings before undernoted	\$ 194,851	\$ 44,733	\$ 36,820	276,404
Interest expense ⁽¹⁾				(27,648)
Proportionate share of associate's one-time loss				(8,000)
Earnings before income taxes				240,756
Income taxes				55,632
Net earnings				185,124
Perpetual preferred share dividends				–
Net earnings available to common shareholders				\$ 185,124

(1) Interest expense includes interest on long-term debt and, beginning January 1, 2019, includes interest on leases as a result of the Company's adoption of IFRS 16, Leases.

NOTE 15 SEGMENTED INFORMATION *(continued)*

2018

THREE MONTHS ENDED JUNE 30	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 365,826	\$ 176,999	\$ 19,956	\$ 562,781
Administration fees	77,510	24,917	4,696	107,123
Distribution fees	40,489	1,541	47,867	89,897
Net investment income and other	12,095	2,437	4,045	18,577
Proportionate share of associates' earnings	–	–	37,583	37,583
	495,920	205,894	114,147	815,961
Expenses				
Commission	151,708	72,940	45,516	270,164
Non-commission	146,857	84,306	21,464	252,627
	298,565	157,246	66,980	522,791
Earnings before undernoted	\$ 197,355	\$ 48,648	\$ 47,167	293,170
Interest expense				(28,770)
Earnings before income taxes				264,400
Income taxes				58,483
Net earnings				205,917
Perpetual preferred share dividends				2,212
Net earnings available to common shareholders				\$ 203,705

NOTE 15 SEGMENTED INFORMATION (continued)

2019

SIX MONTHS ENDED JUNE 30	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 730,082	\$ 344,518	\$ 38,046	\$ 1,112,646
Administration fees	149,078	47,778	8,971	205,827
Distribution fees	85,751	2,984	94,774	183,509
Net investment income and other	23,560	5,047	9,485	38,092
Proportionate share of associates' earnings	–	–	60,914	60,914
	988,471	400,327	212,190	1,600,988
Expenses				
Commission	314,452	145,998	90,069	550,519
Non-commission	315,826	173,666	44,597	534,089
	630,278	319,664	134,666	1,084,608
Earnings before undernoted	\$ 358,193	\$ 80,663	\$ 77,524	516,380
Interest expense ⁽¹⁾				(52,864)
Proportionate share of associate's one-time loss				(8,000)
Earnings before income taxes				455,516
Income taxes				100,676
Net earnings				354,840
Perpetual preferred share dividends				2,213
Net earnings available to common shareholders				\$ 352,627
Identifiable assets	\$ 8,990,871	\$ 1,167,961	\$ 2,886,974	\$13,045,806
Goodwill	1,347,781	1,168,580	143,906	2,660,267
Total assets	\$10,338,652	\$ 2,336,541	\$ 3,030,880	\$15,706,073

(1) Interest expense includes interest on long-term debt and, beginning January 1, 2019, includes interest on leases as a result of the Company's adoption of IFRS 16, Leases.

NOTE 15 SEGMENTED INFORMATION (continued)

2018

SIX MONTHS ENDED JUNE 30	IG WEALTH MANAGEMENT	MACKENZIE INVESTMENTS	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	\$ 726,633	\$ 352,929	\$ 39,820	\$ 1,119,382
Administration fees	155,551	49,799	9,307	214,657
Distribution fees	83,807	3,607	95,803	183,217
Net investment income and other	22,431	2,263	8,092	32,786
Proportionate share of associates' earnings	–	–	75,567	75,567
	988,422	408,598	228,589	1,625,609
Expenses				
Commission	316,466	148,213	91,583	556,262
Non-commission	291,583	170,136	44,053	505,772
	608,049	318,349	135,636	1,062,034
Earnings before undernoted	\$ 380,373	\$ 90,249	\$ 92,953	563,575
Interest expense				(59,034)
Earnings before income taxes				504,541
Income taxes				110,873
Net earnings				393,668
Perpetual preferred share dividends				4,425
Net earnings available to common shareholders				\$ 389,243
Identifiable assets	\$ 8,882,059	\$ 1,188,854	\$ 2,940,980	\$ 13,011,893
Goodwill	1,347,781	1,168,580	143,906	2,660,267
Total assets	\$ 10,229,840	\$ 2,357,434	\$ 3,084,886	\$ 15,672,160

PARGESA HOLDING SA

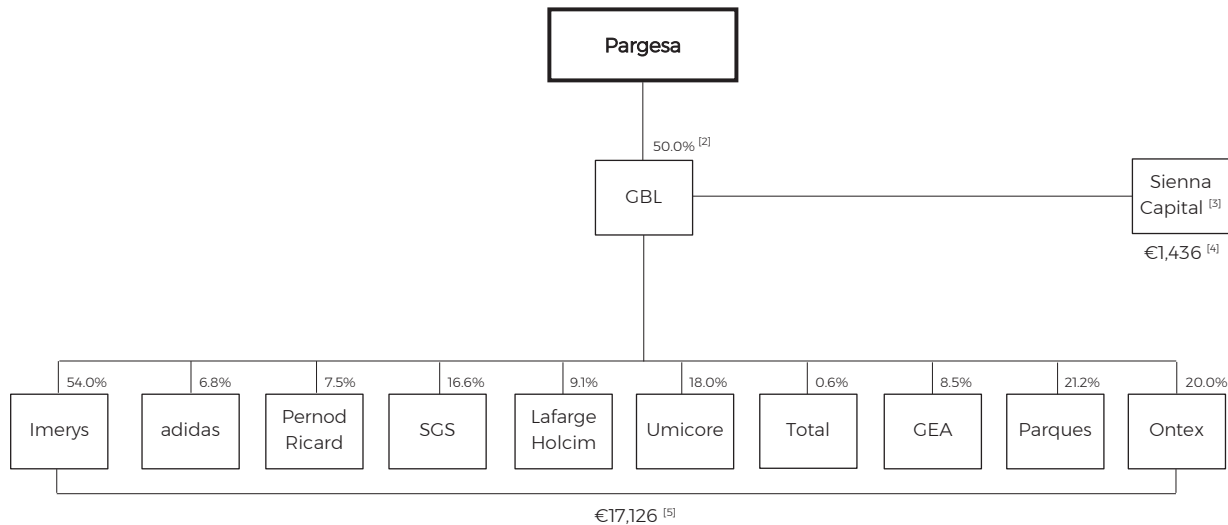
PART D

The attached document discloses information relating to the financial results of Pargesa Holding SA as issued by Pargesa Holding SA.

Pargesa Holding SA

Power Financial Corporation and the Frère Group of Charleroi, Belgium, each hold a 50.0% interest in Parjointco N.V., a Netherlands-based company that, at June 30, 2019, held a 55.5% interest in Pargesa Holding SA (Pargesa), the Pargesa group’s parent company, representing 75.4% of the voting rights in the company. Pargesa has its head office in Geneva, Switzerland and its shares are listed on the Swiss Exchange (SIX: PARG). The Pargesa group holds interests in a limited number of large European companies.

The organization chart below reflects the group's structure at June 30, 2019 ^[1]:



[1] The chart shows the main shareholdings of the portfolio. Shareholdings are expressed as a percentage of the capital held.

[2] 51.5% of voting rights (and of economic interest), taking into account the suspended voting rights related to GBL treasury shares.

[3] Comprising significant investments in private equity, debt or specific thematic funds.

[4] Estimated value in millions of euros at June 30, 2019.

[5] Market value in millions of euros of the main investments held by GBL at June 30, 2019.

Pargesa holds an interest in Groupe Bruxelles Lambert (GBL), a holding company whose head office is in Brussels, Belgium, and which is listed on the Euronext Exchange (EBR: GBLB). At June 30, 2019, the GBL portfolio was comprised of investments in the following publicly traded companies:

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

Key Financial Data

[in millions of Swiss francs] [unaudited]	June 30, 2019	June 30, 2018	December 31, 2018	Variation ^[1] 2019/2018
Consolidated net result (group share)	225	213	361	12
Net debt ^[2]	114	166	175	(61)
Loan to value ^[3]	1.1%	1.5%	1.9%	
Net asset value	10,291	10,799	8,973	14.7 %
Market capitalization	6,374	7,123	6,001	6.2 %

[1] Variation between June 2019 and June 2018 for the consolidated net result, and between June 2019 and December 2018 for net debt, net asset value and market capitalization.

[2] Pargesa's net debt (including 50% of GBL's net debt; the net debt amounts to SF363 million at the end of June 2019 against SF566 million at the end of December 2018 – see "Net asset value" section for details).

[3] The loan to value ratio is calculated on the basis of (i) Pargesa's direct net debt relative to (ii) Pargesa's portfolio value.

Pargesa's consolidated net result (group share) stands in increase at SF225 million in the first half of 2019. The increase in the contribution from non-consolidated shareholdings, from private equity and other investment funds as well as the decrease in net financial expenses more than offset the decrease from Imerys' and Parques' contribution.

Highlights

- In a favourable market context, GBL finalized, in March and April 2019, its exit from the energy sector, initiated in 2013, by selling 0.6% of Total's capital through forward sales maturing in January 2020. Sales were executed at an average spot price of €50.52 per share and at an average forward price of €48.37 per share. They were prepaid^[1] on May 2, 2019 for a total amount of €771 million. The capital gain generated by these sales will amount to €411 million at GBL's level and will not impact the consolidated net income in 2020, in accordance with IFRS 9. At maturity of these sales, on January 24, 2020, GBL's ownership in Total will be reduced to 0.01%. GBL will continue to receive dividends on the disposed shares until this date.
- GBL has also seized this market window to monetize 1% of adidas' capital for a net amount of €499 million and generate a capital gain of €333 million which does not impact the income statement under the accounting standard IFRS 9. At the end of June 2019, the participation in adidas of 6.8% was valued at €3,702 million.
- During the first half of 2019, GBL continued to strengthen its position in Umicore. At June 30, 2019, GBL holds a 18.0% stake in Umicore (17.7% at the end of 2018), representing a market value of €1,250 million.
- Pursuant to GBL's share buyback program, as announced on October 31, 2018, 2.1 million shares for an amount of €181 million have been bought during the first half of 2019. The economic interest of Pargesa in GBL stands at 51.5% following these purchases at June 30, 2019, against 50.8% at December 31, 2018. This share buyback program is executed up to 83% to date.
- The voluntary takeover bid paid in cash for the shares of Parques, announced in April and having begun on July 26, 2019, fits into GBL's objective to increase its exposure to private assets. Conducted alongside EQT AB, a leading player in the private equity sector, and Corporación Financiera Alba, another reference shareholder of the company, this transaction will accelerate the implementation of the value creation strategy within the Parques group, focused on optimizing existing parks and increasing the portfolio diversification, notably through acquisitions. The result of this offer is expected before the end of 2019.
- GBL announced on July 9, 2019 that it has entered into exclusive negotiations to acquire the Webhelp group, a global leader in the field of customer experience and business process outsourcing. The group has doubled in size since 2015 and aims to achieve a turnover of €1.5 billion in 2019. Upon completion of this transaction, GBL would take a majority shareholding alongside Webhelp's co-founding shareholders and management team based on a 100% enterprise value of €2.4 billion. GBL's ambition is to continue, alongside them, to develop the group further and to support its transition from a European player to a global leader. Depending notably on the level of reinvestment of the co-founders and the management team, which is a key factor in the group's successful development, GBL's initial investment in Webhelp should represent 3% to 5% of GBL's net asset value. It is expected that the signing of the legal documentation will occur at the beginning of August 2019, and will be complete after obtaining appropriate regulatory authorizations, within the course of the fourth quarter of 2019.

[1] The prepayment of the forward sales of Total shares will not impact GBL's net financial position until their maturity in January 2020.

- At the level of Sienna Capital:
 - In December 2017, Ergon Capital Partners launched a new fund, Ergon Capital Partners IV, which successfully closed at the end of March 2019, with total commitments of €580 million, beyond the fundraising objective of €500 million. In 2017, Sienna Capital committed €200 million in this new fund.
 - On July 16, 2019, Sienna Capital invested €150 million in Marcho Partners LLP, a London-based fund specializing in innovation and technology.
 - At June 30, 2019, GBL's commitments (amount not called) with respect to Sienna Capital amounted to €468 million (€528 million at December 31, 2018). Sienna Capital's estimated value amounted to €1,436 million at June 30, 2019.

Presentation of Results in Accordance with IFRS

The simplified income statement in accordance with IFRS is as follows:

[in millions of Swiss francs] [unaudited]	FIRST HALF 2019	FIRST HALF 2018
Operating income	2,974.8	3,092.8
Operating expenses	(2,830.3)	(2,833.0)
Other income and expenses	9.5	0.2
Operating profit	154.0	260.0
Dividends and interest from long-term investments	395.2	336.9
Other financial income and expenses	(8.5)	(53.8)
Taxes	(58.5)	(80.5)
Income from associates and joint ventures	5.4	20.9
Net profit from continuing operations	487.6	483.5
Net profit from discontinued operations	-	38.1
Consolidated net profit [before non-controlling interests]	487.6	521.6
Attributable to non-controlling interests	(262.3)	(309.0)
Attributable to Pargesa shareholders [group share]	225.3	212.6
<i>Basic earnings per share attributable to Pargesa shareholders [SF]</i>	<i>2.66</i>	<i>2.51</i>
Average number of shares [in thousands]	84,699	84,672
€/SF average exchange rate	1.130	1.170

The operating profit amounts to SF154.0 million, compared to SF260.0 million in the first half of 2018. This change reflects the decrease of Imerys' operating profit, which includes especially restructuring costs of SF59 million, related to the implementation of Imerys' group transformation program "Connect & Shape", aiming to step up its organic growth and improve its operating profitability in the medium term.

The dividends and interest from long-term investments item of SF395.2 million in the first half of 2019 against SF336.9 million in the first half of 2018 comprises the net dividends recorded by the group from its non-consolidated investments. The variation is primarily due to the increase in the dividends per share paid by some of the portfolio companies, the monetization of LafargeHolcim's dividend in shares, additional investments made by GBL in Umicore and GEA and reimbursements notified by the French tax authorities of withholding taxes which had been applied to the Engie dividends received between 2013 and 2015. These different elements more than compensate the decrease in the €/SF exchange rate.

Other financial income and expenses of -SF8.5 million in the first half of 2019 compared with -SF53.8 million in the first half of 2018 reflects especially the decrease in interest expenses and the positive variation of the fair value of private equity and other non-consolidated funds.

The net profit from discontinued operations of SF38.1 million in 2018 represents the contribution from Imerys' Roofing division, which was sold in October 2018.

Economic Presentation of Pargesa's Financial Results

The presentation of the economic result that follows makes it possible to assess differently the formation of the group results.

The economic results at June 30, 2019 can be analyzed as follows:

[in millions of Swiss francs] [unaudited]		FIRST HALF 2019	FIRST HALF 2018
Contribution from the portfolio to operating income			
Consolidated shareholdings (full consolidation or equity accounting):			
Imerys	share of operating income	50.0	67.5
Parques	share of operating income	(7.2)	(3.2)
Non-consolidated shareholdings (net dividends):			
LafargeHolcim	net dividend	64.4	58.0
SGS	net dividend	50.4	49.6
adidas	net dividend	24.9	20.7
Pernod Ricard	net dividend	13.7	12.0
Total	net dividend	10.4	10.4
Umicore	net dividend	10.3	9.3
GEA	net dividend	7.6	6.0
Ontex	net dividend	3.9	5.9
Other	net dividend	17.6	0.6
Contribution from private equity and other investment funds		20.8	11.6
Contribution from the portfolio to operating income		266.8	248.4
<i>per share [SF]</i>		3.15	2.93
Contribution from holding companies to operating income			
Net financial income and expenses		(4.8)	(13.1)
General expenses and taxes		(16.3)	(17.1)
Operating income		245.7	218.2
<i>per share [SF]</i>		2.90	2.58
Non-operating income (loss) from consolidated shareholdings		(20.4)	(5.1)
Non-operating income (loss) from holding company activities		-	(0.5)
Net income (group share)		225.3	212.6
<i>per share [SF]</i>		2.66	2.51
Average number of shares [in thousands]		84,699	84,672
€/SF average exchange rate		1.130	1.170

Most income comes from GBL, whose results are denominated in euros. In the first half of 2019, the average €/SF exchange rate is 1.130, compared with 1.170 in the first half of 2018, meaning a decrease of -3.4%. Furthermore, following the acquisition of treasury shares by GBL in late 2018 and in 2019 (please refer to the section "Highlights" for more details) and the conversion in 2018 of convertible bonds issued by GBL, Pargesa's share of GBL's earnings (excluding the portion attributable to non-controlling shareholders) stands at 51.5% at June 30, 2019, compared to 50.8% at December 31, 2018 and 51.1% at June 30, 2018.

Consolidated Shareholdings (full consolidation or equity accounting)

Imerys

Imerys' (fully consolidated) net income from current operations (group share) decreases by 10% to €159 million in the first half of 2019 compared to €176 million in the first half of 2018. Including in the first half of 2018 the contribution from its Roofing division classified as discontinued operations in the IFRS presentation for €33 million, Imerys' net operating income as defined by Pargesa amounted to €209 million. Including the effect of the decline of the average €/SF exchange rate, Pargesa's share of Imerys' net income from current operations, in Swiss francs, was SF50.0 million in the first half of 2019, compared with SF67.5 million in the first half of 2018. This lower performance is mainly due to the slowdown in the markets in which Imerys operates, causing a drop in volumes sold and which could not be offset by the improvement in the price-mix.

After taking into account "Other operating income and expenses" of -€63 million net of taxes^[2], Imerys' net income (group share) was €96 million in the first half of 2019. In the first half of 2018, Imerys' net income (group share) amounted to €194 million after taking into account "Other operating income and expenses" of -€15 million net of taxes.

Parques

Parques' contribution in the first half of 2019 represents only the group's share of Parques' profit for the period from January 1 to March 31, 2019, as the company publishes its first half results only after those of the group. As a result, the contribution of the second quarter of 2019 will be included in the September 30, 2019 results of the group. In 2018, Parques' contribution to June 30, 2018 included the result of the first half of 2018. Nevertheless, historically, given the seasonal aspect of its activity, the results achieved by Parques over the period from April 1 to June 30 are not very significant.

For the three-month period ended on March 31, 2019, Parques' operating income stood at -€58 million, being -SF7.2 million in Pargesa's share (-SF3.2 million at June 30, 2018).

After taking into account non-recurring items and/or impairments^[3], Parques' net income for the first three months of the year amounted to -€63 million compared with -€28 million for the first half of 2018.

Non-Consolidated Shareholdings (net dividends)

The contributions from LafargeHolcim, SGS, adidas, Pernod Ricard, Total, Umicore, GEA, and Ontex represent Pargesa's share of net dividends recorded by GBL. The contribution from non-consolidated shareholdings was SF188.2 million in the first half of 2019, compared with SF172.5 million in the first half of 2018.

The contribution from LafargeHolcim was SF64.4 million in the first half of 2019, compared with SF58.0 million in the first half of 2018. In 2019 the company declared a dividend of SF2.00 per share, the same amount as in 2018. The variance in the contribution reflects the monetization of the dividend received in shares by GBL and benefiting a premium compared to the dividend that would have been received in cash.

The contribution from SGS came in at SF50.4 million in the first half of 2019, compared with SF49.6 million for the corresponding period in 2018. The change of the contribution year-over-year results from the increase in the dividend per share paid by SGS to GBL (SF78 compared with SF75 in 2018, up 4.0%) reduced by currency effects.

The contribution from adidas was SF24.9 million in the first half of 2019, compared with SF20.7 million in the first half of 2018. The change in the contribution reflects mainly the increase in the dividend per share paid by the company to GBL (€3.35 vs €2.60 in 2018, or +29%).

Pernod Ricard declared an interim dividend of €1.18 per share in the first half of 2019, compared with €1.01 in the first half of 2018, an increase of 17%. Including the currency effects, Pernod Ricard's contribution for the six-month period ended June 30, 2019 came in at SF13.7 million, compared with SF12.0 million in the first half of 2018.

[2] Pargesa's share of "Other operating income and expenses" recorded by Imerys appears under "Non-operating income (loss)".

[3] Pargesa's share of Parques' non-recurring items and/or impairments also appears under "Non-operating income (loss)".

The contribution from Total was SF10.4 million in the first half of 2019, same amount as in the first half of 2018. The final dividend related to 2018 and the first interim dividend for 2019 amounted to €0.64 and €0.66 per share, respectively (the corresponding amounts in 2018 were €0.62 and €0.64 per share). The increase in the unit dividend is offset in the opposite direction by exchange rate effects. It is reminded that GBL continues to receive dividends until the maturity of the forward sales maturing in January 2020 (see "Highlights" section).

The contribution from Umicore came in at SF10.3 million in the first half of 2019 (compared with SF9.3 million in the first half of 2018), and represents Pargesa's share of the final dividend payment related to 2018, or €0.40 per share, up 6.7% from the corresponding amount in 2018 (€0.375 per share).

The contribution from GEA was SF7.6 million in the first half of 2019, compared with SF6.0 million in the first half of 2018. In 2019 the company paid a dividend of €0.85 per share, the same amount as in 2018. The increase of the contribution reflects the additional investments in GEA made by GBL in the second half of 2018, raising GBL's economic interest to 8.5% at June 30, 2019.

The contribution from Ontex was SF3.9 million in the first half of 2019, compared with SF5.9 million in the first half of 2018. The change reflects mainly the decrease of the annual dividend paid by Ontex to GBL (€0.41 per share in 2019, compared with €0.60 in the previous year, or -32%).

The item Other mainly includes reimbursements notified of SF15.0 million (Pargesa's share) by the French tax authorities of withholding taxes which had been applied to Engie dividends received between 2013 and 2015.

Contributions from Private Equity and Other Funds

The contribution from private equity and other investment fund comes primarily from the funds held by GBL through its subsidiary Sienna Capital, and also includes general expenses and management fees. In the first half of 2019, the net contribution from these activities came in at SF20.8 million, compared with SF11.6 million in the first half of 2018, and includes changes in fair value during the period of the funds that are not fully consolidated for SF22.7 million (SF9.2 million in the first half of 2018).

Net Financial Income and Expenses

Net financial income and expenses, which include interest income and expenses, as well as other financial income and expenses, amounted to -SF4.8 million in the first half of 2019, compared with -SF13.1 million in the first half of 2018. Interest income and expenses recorded by Pargesa as well as its share of those recorded by GBL represented -SF0.7 million in the first half of 2019, compared with -SF7.0 million in the first half of 2018. Other financial income and expenses include in particular Pargesa's share of the realized and unrealized results recorded by GBL from trading activities (including dividends) and from derivatives used in managing its portfolio. Pargesa's share of results from these activities was -SF4.6 million in the first half of 2019, compared with -SF0.5 million in the first half of 2018.

General Expenses and Taxes

The general expenses and taxes line item represents Pargesa's own general expenses and taxes as well as its share of those of GBL.

Non-Operating Income (Loss)

Non-operating income (loss) from consolidated shareholdings

Non-operating income (loss) from consolidated shareholdings of -SF20.4 million (-SF5.1 million in the first half of 2018) includes Pargesa's share of Imerys' "Other operating income and expenses", which, as indicated above, amounted to -€63 million in the first half of 2019, against -€15 million in the first half of 2018 and which includes, in 2019, an amount of €50 million of restructuring costs incurred as part of the "Connect & Shape" strategic plan as well as an amount of €5 million relating to the temporary shutdown of the Willsboro plant in the United States. It also includes Pargesa's share of non-recurring items and/or impairments recorded by Parques during the period (-€5 million for the first three months of 2019 against -€3 million in the first half of 2018).

Non-operating income (loss) from holding company activities

The net non-operating income (loss) from holding company activities is nil in the first half of 2019 against -SF0.5 million in the first half of 2018.

It should be noted that, pursuant to IFRS 9, the gain resulting from the sale by GBL of 1% of adidas' capital during the first half of 2019 amounting to SF193 million (Pargesa's share) has not been recorded in the income statement, but directly in shareholders' equity.

The same will apply to the capital gain to be realized by GBL in 2020 on the forward sale of 0.6% of Total's share capital, which will generate an estimated profit of SF323 million in Pargesa's share (including a foreign exchange gain on disposal at Pargesa's level) and which will therefore not impact the income statement.

Net Asset Value

The table below offers a detailed view of Pargesa's net asset value (on a flow-through basis) at June 30, 2019. The net asset value is calculated by taking, on one hand, the assets and liabilities of Pargesa (excluding Pargesa's participation in GBL) and, on the other hand, Pargesa's share in the value of the portfolio, the net cash or net debt position and the other assets and liabilities of GBL. The net asset value is calculated based on current market values and exchange rates for the listed shareholdings, and on the fair value and current exchange rates for private equity and other investment funds (Sienna Capital).

Pargesa's net asset value per share was SF121.5 per share at June 30, 2019, an increase of 14.7% compared with the level at the end of 2018 (SF105.9 per share). It was SF121.1 per share on July 26, 2019.

Pargesa's share price was SF75.3 on June 30, 2019, compared with SF70.9 at the end of 2018, an increase of 6.2%. At July 26, 2019, the share price closed at SF74.7.

The net asset value at June 30, 2019 is broken down as follows:

Net asset value of Pargesa	June 30, 2019			December 31, 2018	
[in millions of Swiss francs, except as otherwise noted] [unaudited]	% of capital ^[1]	% of economic interest ^[1]	Share price & currency	Flow-through value	Flow-through value
Listed companies:					
adidas	6.8	3.4	€271.5	2,056	1,613
Pernod Ricard	7.5	3.8	€162.1	1,790	1,606
SGS	16.6	8.3	SF2,487.0	1,576	1,400
LafargeHolcim	9.1	4.6	€42.9	1,365	1,156
Imerys	54.0	27.0	€46.6	1,111	1,014
Umicore	18.0	9.0	€28.2	694	856
Total ^[2]	0.6	0.3	€49.3	443	422
GEA	8.5	4.3	€25.0	213	195
Parques	21.2	10.6	€13.9	132	104
Ontex	20.0	10.0	€14.2	130	166
Other				102	96
Other investments:					
Sienna Capital				797	774
Other Pargesa				21	24
Total portfolio				10,430	9,426
GBL treasury assets				224	113
Net cash (debt) ^[3]				(363)	(566)
Net asset value				10,291	8,973
<i>Net asset value per share</i>				121.5	105.9
<i>Share price Pargesa</i>				75.3	70.9
€/SF exchange rate				1.111	1.127

[1] The % of capital represents the % of capital held by GBL in the shareholdings; the % of economic interest represents Pargesa's share (50%) of the % of capital held by GBL.

[2] The ownership percentage as well as the market value of the investment do not take into account yet the forward sales of Total shares will mature in January 2020. The fair value of these contracts is included in the item Net cash (debt) for SF4 million.

[3] This item includes also Pargesa's share in the market value of GBL's trading portfolio.

The net asset value is published on a weekly basis on the company's website.