GREAT-WEST LIFECO INC.

Quarterly Report to Shareholders

Second Quarter Results

For the period ended June 30, 2014

E1138(6/14)-6/14

Quarterly Report to Shareholders

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

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

GREAT-WEST LIFECO INC.

QUARTERLY REPORT TO THE SHAREHOLDERS

January 1 to June 30, 2014 Six Months Results

The condensed consolidated interim unaudited financial statements including notes at June 30, 2014 were approved by the Board of Directors at a meeting held today in Winnipeg.

Great-West Lifeco Inc. (Lifeco) has reported net earnings attributable to common shareholders of $615 million or $0.616 per common share for the three months ended June 30, 2014 compared to $521 million or $0.548 per common share for the same period in 2013, an increase of 18%. Net earnings for the second quarter of 2014 include $8 million of Irish Life Group Limited (Irish Life) related restructuring costs. Excluding these costs earnings per common share were $0.624.

For the six months ended June 30, 2014, net earnings attributable to common shareholders were $1,202 million, compared to $1,038 million a year ago. This represents $1.203 per common share for the six months ended June 30, 2014, compared to $1.092 per common share for the same period in 2013. Net earnings for the six months ended June 30, 2014, include $13 million of Irish Life related restructuring costs. Excluding these costs earnings per common share were $1.216.

Consolidated assets under administration at June 30, 2014 grew to $805 billion, compared to $758 billion at December 31, 2013.

Highlights – In Quarter

- Lifeco premiums and deposits during the quarter were $20.4 billion, up 33% from a year ago, including $2.4 billion from Irish Life Group Limited (Irish Life), reflecting continued strong persistency and growth.
- Total Company sales in the second quarter of 2014 were up 30% compared to the same period in 2013:
  - Canada sales were $2.9 billion, up 14%, reflecting a 19% increase in Individual Life insurance sales and a 14% increase in Individual Wealth Management sales.
  - Europe Insurance & Annuities sales were $2.8 billion, up 217%, including sales of $2.1 billion from Irish Life.
  - Putnam sales were US$7.4 billion, up 16% overall, which reflects a 43% increase in mutual fund sales.
  - Great-West Financial sales were US$2.2 billion, down 10%, as sales momentum gained in first quarter 2014 slowed somewhat in the Retirement Services market. Sales in Individual Markets were strong with a 68% increase year over year.
- Irish Life contributed $57 million of net earnings to Lifeco in the second quarter of 2014, up from $52 million in the first quarter of 2014.
- The Company maintained a strong ROE of 15.8% based on net earnings. ROE based on adjusted operating earnings was 15.0%, which excludes the impact of Irish Life related restructuring and acquisition costs and certain litigation provisions.
- The Company's capital position remained very strong. The Great-West Life Assurance Company, Lifeco's major operating subsidiary, reported a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 228% at June 30, 2014.
- The Company declared a quarterly common dividend of $0.3075 per common share payable September 30, 2014.

OPERATING RESULTS

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) and The Canada Life Assurance Company (Canada Life); Great-West Life & Annuity Insurance Company (Great-West Financial), and Putnam Investments, LLC (Putnam), together with Lifeco's Corporate operating results.

CANADA

The Canada segment of Lifeco includes the operating results of the Canadian businesses operated by Great-West Life, London Life and Canada Life. The three primary business units included in this segment are Individual Insurance, Wealth Management and Group Insurance. The Company provides accumulation, annuity, life, disability and critical illness insurance products to individual and group clients.

Net earnings attributable to common shareholders for the second quarter of 2014 were $304 million, up 8% compared to $281 million in the second quarter of 2013. For the six months ended June 30, 2014 net earnings attributable to common shareholders were $598 million compared to $546 million for the same period in 2013.

Total sales in the second quarter of 2014 were $2.9 billion, compared to $2.5 billion in the second quarter of 2013. This reflects strong growth in Individual Insurance sales of 16% and Wealth Management sales of 15%, partially offset by lower Group Insurance sales. Total sales for the six months ended June 30, 2014 were $6.1 billion compared to $5.6 billion in 2013.

Total Canada segment assets under administration at June 30, 2014 were $157 billion, compared to $149 billion at December 31, 2013.

UNITED STATES

The United States operating results for Lifeco include the results of Great-West Financial, Putnam and 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.

Great-West Financial provides an array of financial security products, including employer-sponsored defined contribution plans, administrative and record-keeping services, fund management and investment and advisory services. It also provides individual retirement accounts, life insurance and annuity products and executive benefits products. Putnam provides investment management, certain administrative functions, distributions and related services through a broad range of investment products.

Net earnings attributable to common shareholders for the second quarter of 2014 were $69 million compared to $73 million in the second quarter of 2013. Great-West Financial reported net earnings of $78 million in the second quarter compared to $87 million for the same period last year. Putnam reported a net loss of $9 million in the second quarter compared to a net loss of $14 million a year ago. For the six months ended June 30, 2014 net earnings attributable to common shareholders were $110 million compared to $144 million in 2013.

Great-West Financial sales in the second quarter of 2014 were US$2.2 billion, down from US$2.5 billion in the second quarter of 2013 due to lower sales in Retirement Services. This decrease was partially offset with strong growth in Individual Markets primarily due to higher executive benefit, retail bank, and IRA sales. Sales for the six months ended June 30, 2014 were US$5.1 billion compared to US$5.0 billion in 2013.

Putnam assets under management as at June 30, 2014 were US$158.6 billion compared to US$133.7 billion a year ago, an increase of 19%. Net asset inflows for the second quarter of 2014 were US$0.2 billion compared to net asset outflows of US$0.4 billion for the same period in 2013, driven by mutual fund net inflows of US$1.7 billion, an increase of US$1.6 billion compared to the same period in 2013.

Total United States segment assets under administration at June 30, 2014 were $447 billion compared to $421 billion at December 31, 2013.

EUROPE

The Europe segment comprises two distinct business units: Insurance & Annuities and Reinsurance, together with an allocation of Lifeco's corporate results. Insurance & Annuities provides protection and wealth management products including payout annuities, through subsidiaries of Canada Life in the U.K., Isle of Man and Germany, and 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.

Net earnings attributable to common shareholders for the second quarter of 2014 were $246 million compared to $178 million a year ago. Irish Life’s contribution to in-quarter net earnings was $57 million. Restructuring costs related to the ongoing integration of Irish Life were $8 million in-quarter. Second quarter 2013 net earnings include Irish Life acquisition related costs of $10 million. For the six months ended June 30, 2014 net earnings attributable to common shareholders were $505 million compared to $370 million for the same period in 2013. On a year-to-date basis, net earnings in 2014 include a contribution from Irish Life of $109 million and $13 million of restructuring costs related to the ongoing integration of Irish Life. For the six months ended June 30, 2013, net earnings include Irish Life acquisition related costs of $14 million.

Insurance & Annuities sales for the second quarter of 2014 were $2.8 billion, including $2.1 billion related to Irish Life, up 217% as compared to $889 million a year ago. Total sales for the six months ended June 30, 2014 were $6.3 billion, including $4.7 billion related to Irish Life, compared to $1.9 billion for the same period in 2013.

Total Europe segment assets under administration at June 30, 2014 were $201 billion, up from $188 billion at December 31, 2013.

LIFECO CORPORATE

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

Net earnings in the Lifeco Corporate segment attributable to common shareholders were a net loss of $4 million in the second quarter of 2014 compared to a net loss of $11 million in the second quarter of 2013. For the six months ended June 30, 2014 net earnings attributable to common shareholders was a net loss of $11 million compared to a net loss of $22 million for the same period in 2013.

QUARTERLY DIVIDENDS

At its meeting today, the Board of Directors approved a quarterly dividend of $0.3075 per share on the common shares of the Company payable September 30, 2014 to shareholders of record at the close of business September 2, 2014.

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

In addition, the Directors approved quarterly dividends on:

- Series F First Preferred Shares of $0.36875 per share;
- Series G First Preferred Shares of $0.3250 per share;
- Series H First Preferred Shares of $0.30313 per share;
- Series I First Preferred Shares of $0.28125 per share;
- Series L First Preferred Shares of $0.353125 per share;
- Series M First Preferred Shares of $0.3625 per share;
- Series N First Preferred Shares of $0.228125 per share;
- Series P First Preferred Shares of $0.3375 per share;
- Series Q First Preferred Shares of $0.321875 per share;
- Series R First Preferred Shares of $0.3000 per share; and
- Series S First Preferred Shares of $0.47106 per share

all payable September 30, 2014 to shareholders of record at the close of business September 2, 2014.

P. A. Mahon
President and Chief Executive Officer

August 6, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED JUNE 30, 2014

DATED: AUGUST 6, 2014

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three months and six months ended June 30, 2014 and includes a comparison to the corresponding periods in 2013, to the three months ended March 31, 2014, and to the Company's financial condition as at December 31, 2013. This MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's three major reportable segments: Canada, United States (U.S.) and Europe.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and are presented in millions of Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the Company's condensed consolidated financial statements for the period ended June 30, 2014. Please also refer to the 2013 Annual MD&A and consolidated financial statements in the Company's 2013 Annual Report.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains some forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and similar expressions or negative versions thereof. In addition, any statement that may be made concerning future 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, are also forward-looking statements. Forward-looking statements are based on expectations and projections 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 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 market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, taxes, inflation, information systems, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, continuity and availability of personnel and third party service providers, the Company's ability to complete strategic transactions and integrate acquisitions and that there will be no unplanned material changes to the Company's facilities, customer and employee relations or credit arrangements. 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 technological change, investment values, payments required under investment products, reinsurance, 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 and catastrophic events. 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 2013 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 carefully and not to place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES

This MD&A contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "operating earnings", "constant currency basis", "premiums and deposits", "sales" and other similar expressions. Non-IFRS financial measures are used to provide management and investors with additional measures of performance. 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. Please refer to the appropriate reconciliations of these non-IFRS financial measures to measures prescribed by IFRS.

CONSOLIDATED OPERATING RESULTS

Selected consolidated financial information
(in Canadian $ millions, except for per share amounts)

	As at or for the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013[2][3]	**June 30 2014**	June 30 2013[2][3]
Premiums and deposits:					
Life insurance, guaranteed annuities and insured health products, net[2]	**$ 5,764**	$ 5,267	$ 4,596	**$ 11,031**	$ 9,527
Self-funded premium equivalents (Administrative services only contracts)	**658**	658	654	**1,316**	1,298
Segregated funds deposits:					
Individual products	**2,830**	2,946	1,431	**5,776**	3,199
Group products	**1,940**	3,364	1,900	**5,304**	3,906
Proprietary mutual funds & institutional deposits	**9,160**	11,662	6,677	**20,822**	14,319
Total premiums and deposits	**20,352**	23,897	15,258	**44,249**	32,249
Fee and other income[2]	**1,110**	1,059	831	**2,169**	1,629
Paid or credited to policyholders[1][2]	**7,580**	7,489	1,579	**15,069**	7,139
Operating earnings - common shareholders	**615**	587	521	**1,202**	1,038
Net earnings - common shareholders	**615**	587	521	**1,202**	1,038
Per common share					
Basic earnings	**$ 0.616**	$ 0.587	$ 0.548	**$ 1.203**	$ 1.092
Dividends paid	**0.3075**	0.3075	0.3075	**0.615**	0.615
Book value	**16.04**	16.05	13.48		
Return on common shareholders' equity[4]					
Operating earnings	**14.3 %**	14.5 %	16.8 %		
Net earnings	**15.8 %**	16.0 %	15.6 %		
Total assets[3]	**$ 344,380**	$ 342,860	$ 264,805		
Proprietary mutual funds and institutional net assets[2]	**200,113**	199,921	149,049		
Total assets under management[3]	**544,493**	542,781	413,854		
Other assets under administration[3]	**260,079**	263,113	182,247		
Total assets under administration[3]	**$ 804,572**	$ 805,894	$ 596,101		
Total equity	**$ 21,122**	$ 20,964	$ 17,843		

(1) Paid or credited to policyholders includes the impact of changes in fair values of assets supporting insurance and investment contract liabilities.
(2) The Company reclassified comparative figures for presentation adjustments adopted in 2013.
(3) Comparative figures, where impacted, have been restated for the retrospective impact of IFRS 10, *Consolidated Financial Statements*.
(4) Return on shareholders' equity is detailed within the "Capital Allocation Methodology" section.

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) and The Canada Life Assurance Company (Canada Life); Great-West Life & Annuity Insurance Company (Great-West Financial) and Putnam Investments, LLC (Putnam), together with Lifeco's Corporate operating results. Irish Life Group Limited (Irish Life) results are included for the period subsequent to the acquisition date of July 18, 2013.

Lifeco's net earnings attributable to common shareholders for the three month period ended June 30, 2014 were $615 million compared to $521 million a year ago and $587 million in the previous quarter. On a per share basis this represents $0.616 per common share ($0.615 diluted) for the second quarter of 2014 compared to $0.548 per common share ($0.547 diluted) a year ago and $0.587 per common share ($0.587 diluted) in the previous quarter. Irish Life's contribution to in-quarter net earnings was $57 million. Restructuring costs related to the ongoing integration of Irish Life were $8 million in-quarter. Second quarter 2013 net earnings include Irish Life acquisition related costs of $10 million.

For the six months ended June 30, 2014, Lifeco's net earnings attributable to common shareholders were $1,202 million compared to $1,038 million a year ago. On a per share basis, this represents $1.203 per common share ($1.202 diluted) for 2014 compared to $1.092 per common share ($1.091 diluted) a year ago. On a year-to-date basis, net earnings in 2014 include a contribution from Irish Life of $109 million and $13 million of restructuring costs related to the ongoing integration of Irish Life. For the six months ended June 30, 2013, net earnings include Irish Life acquisition related costs of $14 million.

Net earnings - common shareholders	**For the three months ended**			**For the six months ended**	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Canada					
Individual Insurance	**$ 97**	$ 69	$ 71	**$ 166**	$ 127
Wealth Management	**113**	105	90	**218**	180
Group Insurance	**92**	109	118	**201**	213
Canada Corporate	**2**	11	2	**13**	26
	304	294	281	**598**	546
United States					
Financial Services	**78**	94	87	**172**	172
Asset Management	**(9)**	(53)	(14)	**(62)**	(28)
U.S. Corporate	**-**	-	-	**-**	-
	69	41	73	**110**	144
Europe					
Insurance & Annuities	**184**	200	118	**384**	248
Reinsurance	**72**	63	70	**135**	125
Europe Corporate	**(10)**	(4)	(10)	**(14)**	(3)
	246	259	178	**505**	370
Lifeco Corporate	**(4)**	(7)	(11)	**(11)**	(22)
Net earnings	**$ 615**	$ 587	$ 521	**$ 1,202**	$ 1,038

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.

MARKET IMPACTS

Interest Rate Environment

Interest rates in countries where the Company operates declined during the quarter, but did not impact the range of interest rate scenarios tested through the valuation process. The net change in interest rates had no material impact on net earnings or the Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio relative to the Company's expectations.

Refer to note 5 of the Company's condensed consolidated financial statements for the period ended June 30, 2014 for a further description of the Company's sensitivity to interest rate fluctuations.

Equity Markets

In the second quarter of 2014, market performance was above the Company's expectations resulting in increased asset-based fee income and reduced costs of guarantees of death, maturity or income benefits within certain wealth management products offered by the Company. Equity markets' performance in the second quarter of 2014 was positive in all geographies where the Company operates. The major equity indices finished the second quarter up 5.7% in Canada (as measured by S&P TSX), up 4.7% in the U.S. (as measured by S&P 500), up 4.2% in broader Europe (as measured by Eurostoxx 50), and up 2.2% in the U.K. (as measured by FTSE 100), compared to March 31, 2014. Comparing the second quarter of 2014 to the second quarter of 2013, the average equity market levels were up by 18.6% in Canada, by 18.0% in the U.S., by 18.8% in broader Europe and by 5.0% in the U.K.

Foreign Currency

During the second quarter of 2014, the average currency translation rates of the U.S. dollar, British pound and euro increased compared to the second quarter of 2013. The overall impact of currency movement on the Company's net earnings for the three month period ended June 30, 2014 was an increase of $34 million ($71 million year-to-date) compared to translation rates a year ago.

Conversely, the market rates at the end of the reporting period used to translate U.S. dollar, British pound and euro assets and liabilities to the Canadian dollar decreased from March 31, 2014 to June 30, 2014. The decrease in end of period market rates resulted in unrealized foreign exchange losses from the translation of foreign operations net of related hedging activities of $311 million in-quarter ($192 million net unrealized gains year-to-date) recorded in other comprehensive income.

Translation rates for the reporting period and comparative periods are detailed in the translation of foreign currency section at the end of the MD&A.

PREMIUMS AND DEPOSITS AND SALES

Premiums and deposits include premiums on risk-based insurance and annuity products, premium equivalents on self-funded group insurance administrative services only (ASO) contracts, deposits on individual and group segregated fund products and deposits on proprietary mutual funds and institutional accounts.

Sales include 100% of single-premium and annualized recurring premium on risk-based and annuity products, deposits on individual and group segregated fund products, deposits on proprietary mutual funds and institutional accounts and deposits on non-proprietary mutual funds.

Premiums and deposits	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Canada					
Individual Insurance	**$ 1,122**	$ 1,077	$ 1,029	**$ 2,199**	$ 2,030
Wealth Management	**2,736**	4,051	2,371	**6,787**	5,060
Group Insurance	**1,912**	1,900	1,890	**3,812**	3,765
	5,770	7,028	5,290	**12,798**	10,855
United States					
Financial Services	**1,597**	1,808	1,412	**3,405**	2,846
Asset Management	**8,041**	9,972	6,499	**18,013**	13,932
	9,638	11,780	7,911	**21,418**	16,778
Europe					
Insurance & Annuities	**3,498**	4,112	1,257	**7,610**	2,517
Reinsurance[(1)]	**1,446**	977	800	**2,423**	2,099
	4,944	5,089	2,057	**10,033**	4,616
Total	**$ 20,352**	$ 23,897	$ 15,258	**$ 44,249**	$ 32,249

Sales	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Canada	**$ 2,904**	$ 3,202	$ 2,547	**$ 6,106**	$ 5,559
United States	**10,480**	13,159	9,026	**23,639**	18,976
Europe - Insurance & Annuities	**2,814**	3,506	889	**6,320**	1,850
Total	**$ 16,198**	$ 19,867	$ 12,462	**$ 36,065**	$ 26,385

(1) The Company reclassified comparative figures for presentation adjustments adopted in 2013.

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

NET INVESTMENT INCOME

Net investment income	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Investment income earned (net of investment properties expenses)	**$ 1,531**	$ 1,490	$ 1,389	**$ 3,021**	$ 2,725
Allowances for credit losses on loans and receivables	**1**	(1)	(1)	**-**	(2)
Net realized gains	**18**	22	30	**40**	77
Regular investment income	**1,550**	1,511	1,418	**3,061**	2,800
Investment expenses	**(24)**	(22)	(17)	**(46)**	(37)
Regular net investment income	**1,526**	1,489	1,401	**3,015**	2,763
Changes in fair value through profit or loss	**1,670**	2,122	(3,200)	**3,792**	(2,735)
Net investment income	**$ 3,196**	$ 3,611	$ (1,799)	**$ 6,807**	$ 28

Net investment income in the second quarter of 2014, which includes changes in fair value through profit or loss, increased by $4,995 million compared to the same period last year. The change in fair values in the second quarter of 2014 was an increase of $1,670 million compared to a decrease of $3,200 million for the second quarter of 2013, primarily as a result of interest rate movement. Government bond yields declined in the second quarter of 2014 compared to an increase in the second quarter of 2013.

Regular net investment income in the second quarter of 2014, which excludes changes in fair value through profit or loss, increased by $125 million compared to the second quarter of 2013. Irish Life contributed $44 million to regular net investment income in the second quarter of 2014. Excluding the impact of Irish Life, regular net investment income increased by $81 million mostly as a result of a strengthening of the British pound, U.S. dollar and euro against the Canadian dollar. Net realized gains include gains on available-for-sale securities of $13 million in the second quarter of 2014 compared to $18 million for the same period last year.

For the six months ended June 30, 2014, net investment income increased by $6,779 million compared to the same period last year. The change in fair values for the six month period in 2014 was an increase of $3,792 million compared to a decrease in fair values of $2,735 million during the same period in 2013, primarily as a result of government bond yields decreasing in the first half of 2014 but increasing in the same period of 2013. Regular net investment income for the six months ended June 30, 2014 increased by $252 million compared to the same period last year. Irish Life contributed $68 million to regular net investment income for the six months ended June 30, 2014. Excluding the impact of Irish Life, regular net investment income increased by $184 million, primarily as a result of a strengthening of the British pound, U.S. dollar and euro against the Canadian dollar. Net realized gains include gains on available-for-sale securities of $24 million for the six months ended June 30, 2014, compared to $53 million for the same period last year.

Net investment income in the second quarter of 2014 was $415 million lower than the first quarter of 2014. The decrease was primarily due to net increases in fair values of $1,670 million in the second quarter of 2014 compared to net increases of $2,122 million in the previous quarter, as a result of a smaller decline in government bond yields in the second quarter of 2014, as compared to the first quarter.

Credit Markets

In the second quarter of 2014, the Company experienced net recoveries on impaired investments, including dispositions, which positively impacted common shareholders’ net earnings by $15 million ($3 million net recovery in the second quarter of 2013). Changes in credit ratings in the Company's bond portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $9 million in the second quarter ($11 million net charge in the second quarter of 2013).

For the six months ended June 30, 2014, the Company experienced net recoveries on impaired investments, including dispositions, which positively impacted common shareholders' net earnings by $20 million ($6 million net recovery year-to-date in 2013). Changes in credit ratings in the Company's bond portfolio resulted in a net increase in provisions for future credit losses in insurance contract liabilities, which negatively impacted common shareholders' net earnings by $12 million year-to-date ($10 million net charge year-to-date in 2013).

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 2014	March 31 2014	June 30 2013[(1)]	**June 30 2014**	June 30 2013[(1)]
Canada					
Segregated funds, mutual funds and other	**$ 318**	$ 306	$ 278	**$ 624**	$ 550
ASO contracts	**38**	38	38	**76**	75
	356	344	316	**700**	625
United States					
Segregated funds, mutual funds and other	**436**	419	349	**855**	686
Europe					
Segregated funds, mutual funds and other	**318**	296	166	**614**	318
Total fee and other income	**$ 1,110**	$ 1,059	$ 831	**$ 2,169**	$ 1,629

(1) The Company reclassified certain comparative figures for presentation adjustments adopted in 2013.

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

PAID OR CREDITED TO POLICYHOLDERS

Paid or credited to policyholders	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Canada	**$ 3,367**	$ 3,365	$ 1,053	**$ 6,732**	$ 3,509
United States	**1,295**	1,298	366	**2,593**	1,126
Europe[(1)]	**2,918**	2,826	160	**5,744**	2,504
Total	**$ 7,580**	$ 7,489	$ 1,579	**$ 15,069**	$ 7,139

(1) The Company reclassified comparative figures for presentation adjustments adopted in 2013.

Amounts paid or credited to policyholders include life and health claims, policy surrenders, annuity and maturity payments, segregated funds guarantee payments, policyholder dividend and experience refund payments and changes in insurance and investment contract liabilities. The change in contract liabilities includes the impact of changes in fair values of certain invested assets supporting those liabilities as well as changes in the provision for future credit losses. The amounts do not include benefit payments for ASO contracts or segregated funds and mutual funds.

For the three months ended June 30, 2014, consolidated amounts paid or credited to policyholders were $7.6 billion, including $4.5 billion of policyholder benefit payments and a $3.1 billion increase in contract liabilities. The increase of $6.0 billion from the same period in 2013 consisted of a $5.7 billion contract liability increase, largely driven by fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe. The increase was also due to a new Dutch-based annuity reinsurance agreement and a $255 million increase in benefit payments primarily due to the contribution of Irish Life, currency movement and normal business growth.

For the six months ended June 30, 2014, consolidated amounts paid or credited to policyholders were $15.1 billion, including $9.2 billion of policyholder benefit payments and a $5.9 billion increase in contract liabilities. The increase of $7.9 billion from the same period in 2013 consisted of an $8.0 billion contract liability increase, primarily due to fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe and the impact of a new Dutch-based annuity reinsurance agreement. The increase was partly offset by a $59 million decrease in benefit payments. The decrease in benefit payments was due to the commutation of a health insurance treaty, partly offset by currency movement, the contribution of Irish Life and normal business growth.

Compared to the previous quarter, consolidated amounts paid or credited to policyholders increased by $91 million. The increase consisted of a $331 million contract liability increase, primarily due to a new Dutch-based annuity reinsurance agreement, partly offset by fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe, and a $240 million decrease in benefit payments. The decrease in benefit payments was primarily due to the commutation of a health insurance treaty partly offset by normal business growth.

INCOME TAXES

The Company's effective income tax rate is generally lower than the statutory income tax rate of 26.5% due to benefits related to non-taxable investment income and lower income tax in foreign jurisdictions.

In the second quarter of 2014, the Company had an effective income tax rate of 19% up from 18% in the second quarter of 2013. The increase in the effective income tax rate for the second quarter in 2014 is primarily a result of a lower portion of non-taxable investment income in 2014 as compared to 2013.

The Company had an effective income tax rate of 20% for the six months ended June 30, 2014 compared to 18% for the same period in 2013. The effective income tax rate increased in 2014 as a result of higher non-deductible expenses in the participating account and newly enacted U.S. state income tax laws resulting in reduced carrying values of certain deferred income tax assets in Putnam. This increase in the effective income tax rate was partially offset by an increase in income taxed outside of Canada and the recognition of a deferred tax asset on losses that were previously unrecognized in 2014.

The second quarter effective income tax rate of 19% is lower than the first quarter of 2014 rate of 21%, primarily due to a second quarter decrease in reserves for uncertain tax positions compared to an increase in the first quarter. Additionally in the first quarter, the Company’s effective income tax rate was negatively impacted by higher non-deductible expenses in the participating account and newly enacted U.S. state income tax laws resulting in reduced carrying values of certain deferred income tax assets in Putnam. The increase in the first quarter effective tax rate was partially offset by the recognition of a deferred tax asset on losses that were previously unrecognized.

CONSOLIDATED FINANCIAL POSITION

ASSETS

Assets under administration

	June 30, 2014			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	**$ 62,343**	**$ 32,699**	**$ 44,152**	**$ 139,194**
Goodwill and intangible assets	**5,107**	**1,839**	**2,332**	**9,278**
Other assets	**3,030**	**3,454**	**19,042**	**25,526**
Segregated funds net assets	**67,687**	**28,751**	**73,944**	**170,382**
Total assets	**138,167**	**66,743**	**139,470**	**344,380**
Proprietary mutual funds and institutional net assets	**4,587**	**176,577**	**18,949**	**200,113**
Total assets under management	**142,754**	**243,320**	**158,419**	**544,493**
Other assets under administration	**14,225**	**203,517**	**42,337**	**260,079**
Total assets under administration	**$ 156,979**	**$ 446,837**	**$ 200,756**	**$ 804,572**

	December 31, 2013			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 59,735	$ 31,206	$ 41,001	$ 131,942
Goodwill and intangible assets	5,103	1,828	2,337	9,268
Other assets	2,941	3,356	17,619	23,916
Segregated funds net assets	62,204	28,168	70,407	160,779
Total assets	129,983	64,558	131,364	325,905
Proprietary mutual funds and institutional net assets	4,114	164,515	16,614	185,243
Total assets under management	134,097	229,073	147,978	511,148
Other assets under administration	14,607	192,490	40,042	247,139
Total assets under administration	$ 148,704	$ 421,563	$ 188,020	$ 758,287

Total assets under administration at June 30, 2014 increased by $46.3 billion to $804.6 billion compared to December 31, 2013, primarily as a result of market value gains, currency movement and new business growth. Other assets under administration increased by $12.9 billion, primarily due to positive currency movement, new plan sales in the U.S. segment and market value gains.

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. The Company implements strategies within the overall framework of the Company's policies, reviewing and adjusting them on an ongoing basis in light of liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Bond portfolio – It is the Company's policy to acquire only investment grade bonds subject to prudent and well defined investment policies. The total bond portfolio, including short-term investments, was $96.0 billion or 69% of invested assets at June 30, 2014 and $89.9 billion or 69% at December 31, 2013. 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, 2014		December 31, 2013	
AAA	**$ 32,135**	**34 %**	$ 30,626	34 %
AA	**17,742**	**18**	15,913	18
A	**27,758**	**29**	25,348	28
BBB	**17,090**	**18**	16,809	19
BB or lower	**1,234**	**1**	1,218	1
Total	**$ 95,959**	**100 %**	$ 89,914	100 %

Holdings of Debt Securities of Governments

	Carrying Value by Rating - June 30, 2014						
	AAA	**AA**	**A**	**BBB**	**BB & Lower**	**Total***	**Amortized Cost***
Canada	$ 10,547	$ 3,256	$ 3,446	$ 69	$ 18	$ 17,336	$ 16,488
U.K.	8,487	1,213	202	624	-	10,526	9,904
U.S.	5,759	1,591	200	-	3	7,553	7,258
Ireland	-	-	-	670	-	670	600
	24,793	**6,060**	**3,848**	**1,363**	**21**	**36,085**	**34,250**
Portugal	-	-	-	-	11	11	11
Italy	-	-	-	88	-	88	82
Greece	-	-	-	-	-	-	-
Spain	-	-	-	28	-	28	29
	-	**-**	**-**	**116**	**11**	**127**	**122**
Germany	2,265	61	-	-	-	2,326	2,280
France	-	1,062	-	-	-	1,062	941
Netherlands	30	746	-	-	-	776	745
Austria	44	380	-	-	-	424	404
Supranationals	1,099	212	-	-	-	1,311	1,237
All other (10 countries)	577	371	141	29	-	1,118	1,081
	4,015	**2,832**	**141**	**29**	**-**	**7,017**	**6,688**
Total	**$ 28,808**	**$ 8,892**	**$ 3,989**	**$ 1,508**	**$ 32**	**$ 43,229**	**$ 41,060**

* Includes certain funds held by ceding insurers with a carrying value of $3,156 million and an amortized cost of $3,001 million.

At June 30, 2014, the Company held government and government-related debt securities (including certain assets reported as funds held by ceding insurers) with an aggregate carrying value of $43.2 billion, up from $40.6 billion at December 31, 2013. Government bond holdings increased by $2.6 billion, mainly due to an increase in market values driven by decreasing government bond yields and a strengthening of the British pound, U.S. dollar and euro against the Canadian dollar. Government and government-related debt securities include investments in Public-Private Partnerships. At June 30, 2014, $18 million of these securities were rated below investment grade.

Included in this portfolio are debt securities issued by Portugal, Italy and Spain, with an aggregate carrying value of $127 million, up from $104 million at December 31, 2013 mainly as a result of an increase in Spanish sovereign debt holdings and an increase in market values of Italian sovereign debt. The additional Spanish sovereign debt was acquired through a new reinsurance agreement entered into in-quarter. The Company does not hold any debt securities of the government of Greece or Argentina.

Holdings of Debt Securities of Banks and Other Financial Institutions

	Carrying Value by Rating - June 30, 2014						
	AAA	AA	A	BBB	BB & Lower	Total*	Amortized Cost*
Canada	$ 68	$ 516	$ 993	$ 184	$ -	$ 1,761	$ 1,677
U.K.	305	600	1,852	990	490	4,237	3,945
U.S.	730	1,359	2,014	579	17	4,699	4,341
Ireland	-	-	4	52	13	69	66
	1,103	**2,475**	**4,863**	**1,805**	**520**	**10,766**	**10,029**
Portugal	-	-	-	-	-	-	-
Italy	-	-	36	87	-	123	116
Greece	-	-	-	-	-	-	-
Spain	74	-	85	119	-	278	264
	74	**-**	**121**	**206**	**-**	**401**	**380**
Germany	1	37	207	1	-	246	236
France	116	112	276	276	-	780	723
Netherlands	38	233	233	40	-	544	514
Australia	138	357	83	89	-	667	648
All other (19 institutions)	88	278	440	104	17	927	888
	381	**1,017**	**1,239**	**510**	**17**	**3,164**	**3,009**
Total	**$ 1,558**	**$ 3,492**	**$ 6,223**	**$ 2,521**	**$ 537**	**$ 14,331**	**$ 13,418**

	Carrying Value by Seniority - June 30, 2014							
	Covered	Senior Debt	Subordinated Debt	Upper Tier Two	Capital Securities	Contingent Capital	Total*	Amortized Cost*
Canada	$ 74	$ 1,233	$ 133	$ 64	$ 257	$ -	$ 1,761	$ 1,677
U.K.	333	1,845	1,033	565	337	124	4,237	3,945
U.S.	460	2,992	1,062	-	185	-	4,699	4,341
Ireland	53	3	-	-	13	-	69	66
	920	**6,073**	**2,228**	**629**	**792**	**124**	**10,766**	**10,029**
Portugal	-	-	-	-	-	-	-	-
Italy	36	-	-	-	87	-	123	116
Greece	-	-	-	-	-	-	-	-
Spain	113	-	71	42	52	-	278	264
	149	**-**	**71**	**42**	**139**	**-**	**401**	**380**
Germany	52	96	98	-	-	-	246	236
France	212	200	193	55	120	-	780	723
Netherlands	38	396	47	25	38	-	544	514
Australia	150	398	68	-	51	-	667	648
All other (19 institutions)	130	470	146	100	81	-	927	888
	582	**1,560**	**552**	**180**	**290**	**-**	**3,164**	**3,009**
Total	**$ 1,651**	**$ 7,633**	**$ 2,851**	**$ 851**	**$ 1,221**	**$ 124**	**$ 14,331**	**$ 13,418**

* Includes certain funds held by ceding insurers with a carrying value of $3,137 million and an amortized cost of $2,798 million.

At June 30, 2014, the Company held debt securities, including short-term debt securities, issued by banks and other financial institutions (including certain assets reported as funds held by ceding insurers) with an aggregate carrying value of $14.3 billion, up from $13.4 billion at December 31, 2013. The increase was mainly due to an increase in market values driven by decreasing corporate bond yields, strengthening of the British pound, U.S. dollar and euro against the Canadian dollar and net purchases of securities.

Included in this portfolio are $401 million of debt securities issued by banks and other financial institutions domiciled in Italy and Spain, compared to $339 million at December 31, 2013. The increase was primarily due to higher Spanish debt holdings, acquired through a new reinsurance agreement, and an increase in market values of the Spanish and Italian debt. Of the Spanish holdings of $278 million, $222 million are Sterling denominated bonds issued by U.K. domiciled Prudential Regulation Authority (PRA) regulated subsidiaries of Spanish financial institutions. The Company does not have any holdings of banks and other financial institutions domiciled in Greece or Portugal.

At June 30, 2014, 96% of the $14.3 billion carrying value of debt securities invested in banks and other financial institutions was rated investment grade.

Mortgage portfolio – It is the Company's practice to acquire only high quality commercial mortgages meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk-rating system, which it uses in its underwriting and credit monitoring processes for commercial loans. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well diversified across each geographic region, including specific diversification requirements for non-insured mortgages.

Mortgage portfolio	**June 30, 2014**				December 31, 2013	
Mortgage loans by type	**Insured**	**Non-insured**	**Total**		Total	
Single family residential	**$ 879**	**$ 958**	**$ 1,837**	**9 %**	$ 1,758	9 %
Multi-family residential	**2,834**	**2,244**	**5,078**	**25**	4,812	25
Commercial	**200**	**12,962**	**13,162**	**66**	12,493	66
Total	**$ 3,913**	**$ 16,164**	**$ 20,077**	**100 %**	$ 19,063	100 %

The total mortgage portfolio was $20.1 billion or 14% of invested assets at June 30, 2014, compared to $19.1 billion or 14% of invested assets at December 31, 2013. Total insured loans were $3.9 billion or 19% of the mortgage portfolio.

Single family residential mortgage				
Region	**June 30, 2014**		December 31, 2013	
Ontario	**$ 887**	**48 %**	$ 826	47 %
Quebec	**397**	**22**	392	22
Alberta	**127**	**7**	123	7
British Columbia	**110**	**6**	109	6
Newfoundland	**95**	**5**	93	5
Saskatchewan	**70**	**4**	63	4
Nova Scotia	**62**	**3**	63	4
Manitoba	**46**	**3**	45	3
New Brunswick	**40**	**2**	41	2
Other	**3**	**-**	3	-
Total	**$ 1,837**	**100 %**	$ 1,758	100 %

During the six months ended June 30, 2014, single family mortgage originations, including renewals, were $286 million, of which 31% 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 its obligations related to the mortgage. 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 25 years and the loan-to-value 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 is 22 years as at June 30, 2014.

Provision for future credit losses

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

At June 30, 2014, the total provision for future credit losses in insurance contract liabilities was $2,965 million compared to $2,795 million at December 31, 2013, an increase of $170 million primarily due to normal business activity and the impact of currency movement.

The aggregate of impairment provisions of $23 million ($38 million at December 31, 2013) and $2,965 million ($2,795 million at December 31, 2013) for future credit losses in insurance contract liabilities represents 2.4% of bond and mortgage assets including funds held by ceding insurers at June 30, 2014 (2.4% at December 31, 2013).

LIABILITIES

Total liabilities

	June 30 2014	Dec. 31 2013
Insurance and investment contract liabilities	**$ 139,835**	$ 132,063
Other general fund liabilities	**13,041**	13,064
Investment and insurance contracts on account of segregated fund policyholders	**170,382**	160,779
Total	**$ 323,258**	$ 305,906

Total liabilities increased by $17.4 billion to $323.3 billion at June 30, 2014 from December 31, 2013.

Investment and insurance contracts on account of segregated fund policyholders increased by $9.6 billion, primarily due to the impact of market value gains and investment income of $8.8 billion, the impact of currency movement of $0.8 billion and net deposits of $0.4 billion. Insurance and investment contract liabilities increased by $7.8 billion, primarily due to the impact of business growth, fair value adjustments as a result of changes in interest rates and currency movement.

Investment Guarantees Associated with Wealth Management Products

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.

The guaranteed minimum withdrawal benefit (GMWB) products offered by the Company offer levels of death and maturity guarantees. At June 30, 2014, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was $2,835 million ($2,674 million at December 31, 2013). The Company has a hedging program in place to manage certain risks associated with options embedded in its GMWB products.

Segregated funds guarantee exposure

		June 30, 2014 Investment deficiency by benefit type			
	Market Value	**Income**	**Maturity**	**Death**	**Total***
Canada	$ 28,647	$ -	$ 19	$ 57	$ 57
United States	9,152	-	-	40	40
Europe					
Insurance & Annuities	8,028	-	10	33	33
Reinsurance**	1,130	294	-	20	314
	9,158	**294**	**10**	**53**	**347**
Total	**$ 46,957**	**$ 294**	**$ 29**	**$ 150**	**$ 444**

* 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, 2014.

** Reinsurance exposure is to markets in Canada and the United States.

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, 2014. 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 $3 million in-quarter and $5 million year-to-date, with the majority arising in the Europe Reinsurance segment.

ACTUARIAL STANDARDS UPDATE

On May 15, 2014, the Canadian Actuarial Standards Board published the Standards of Practice that are effective October 15, 2014, reflecting revisions to economic reinvestment assumptions used in the valuation of insurance contract liabilities. Under the new Standards and current economic conditions, the impact on adoption is anticipated as follows:

- An increase in the low end of the range of long-term reinvestment interest rates tested is expected to result in a liability release, primarily from the Canadian segment where the Company is exposed to low interest rates on reinvestments in later durations.
- New constraints on the recognition of non-fixed income investments are expected to result in a liability increase.

The Company is still considering potential changes to the additional scenarios tested in addition to those prescribed, fine tuning the spread assumptions used in the above estimates and a number of the more detailed implications of the Standards.

The net impact of the above changes is expected to be positive to net earnings upon adoption in the fourth quarter of 2014. While difficult to fully quantify at this point given matters still under review, current estimates and assumptions indicate the impact to be approximately $50 million.

As disclosed in Note 5 of the Company’s condensed consolidated financial statements for the period ended June 30, 2014, the total provision for interest rates is sufficient to cover a broader or more severe set of risks than the prescribed scenario minimums under the current standards. As a result, the impact of the new Standards on net earnings sensitivity to changes in interest rates, changes in the equity return assumption and the impact of an equity market shock is not anticipated to be material.

SHARE CAPITAL AND SURPLUS
Share capital outstanding at June 30, 2014 was $9,629 million, which comprises $7,115 million of common shares, $2,264 million of non-cumulative First Preferred Shares and $250 million of non-cumulative five-year rate reset First Preferred Shares.

The Company commenced a normal course issuer bid on December 9, 2013, terminating December 8, 2014, to purchase and cancel up to 6,000,000 of its common shares at market prices in order to mitigate the dilutive effect of stock options under the Company's Stock Option Plan. During the six months ended June 30, 2014, the Company repurchased and subsequently cancelled 726,304 common shares (2013 - nil) at an average cost per share of $30.72 under its normal course issuer bid program.

The Company issued 8,000,000, 5.25% non-cumulative fixed rate perpetual First Preferred Shares, Series S, for gross proceeds of $200 million, which closed on May 22, 2014.

NON-CONTROLLING INTERESTS
The Company's non-controlling interests include participating account surplus in subsidiaries and non-controlling interests in subsidiaries.

During the first quarter of 2014, the Company modified certain Putnam share-based compensation plans. As a result, these plans are now classified as equity-settled share-based payment transactions, wherein compensation is measured by reference to the fair value of the equity investments at grant date with a corresponding increase to equity. During the first quarter of 2014, the Company reclassified the share-based liability into equity ($217 million to non-controlling interest and $26 million to contributed 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 adequate levels of liquid investments. The Company holds cash, cash equivalents and short-term bonds at the Lifeco holding company level and with the Lifeco consolidated subsidiary companies. At June 30, 2014, the Company and its operating subsidiaries held cash, cash equivalents and short-term bonds of $9.4 billion ($6.4 billion at December 31, 2013) and other available government bonds of $27.7 billion ($28.3 billion at December 31, 2013). Included in the cash, cash equivalents and short-term bonds at June 30, 2014 is approximately $0.7 billion ($0.6 billion at December 31, 2013) at the Lifeco holding company level. In addition, the Company maintains sufficient committed lines of credit with Canadian chartered banks for unanticipated liquidity needs, if required**.**

The Company does not have a formal common shareholder dividend policy. Dividends on outstanding common shares of the Company are declared and paid at the sole discretion of the Board of Directors of the Company. The decision to declare a dividend on the common shares of the Company takes into account a variety of factors including the level of earnings, adequacy of capital and availability of cash resources. As a holding company, the Company's ability to pay dividends is dependent upon the Company receiving dividends from its operating subsidiaries. The Company's operating subsidiaries are subject to regulation in a number of jurisdictions, each of which maintains its own regime for determining the amount of capital that must be held in connection with the different businesses carried on by the operating subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time to time, and thereby impact the ability of the operating subsidiaries to pay dividends to the Company. For entities based in Europe, the local solvency capital regime will be changing to the Solvency II basis, which is expected to be introduced effective January 1, 2016. Uncertainty of the rules and regulatory interpretation could increase the near term risk of additional local capital requirements. The Company continues to assess the impact of this change and will take appropriate steps to respond to the new regulatory environment.

CASH FLOWS

Cash flows	For the three months ended June 30		For the six months ended June 30	
	2014	2013	**2014**	2013
Cash flows relating to the following activities:				
Operations	**$ 1,381**	$ 1,547	**$ 2,654**	$ 2,112
Financing	**(222)**	310	**(632)**	1,407
Investment	**(1,172)**	(1,219)	**(1,733)**	(2,685)
	(13)	638	**289**	834
Effects of changes in exchange rates on cash and cash equivalents	**(74)**	66	**29**	59
Increase (decrease) in cash and cash equivalents in the period	**(87)**	704	**318**	893
Cash and cash equivalents, beginning of period	**3,196**	2,084	**2,791**	1,895
Cash and cash equivalents, end of period	**$ 3,109**	$ 2,788	**$ 3,109**	$ 2,788

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. In general, 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 flow related financing activities include the issuance and repayment of capital instruments, and associated dividends and interest payments.

In the second quarter of 2014, cash and cash equivalents decreased by $87 million from March 31, 2014. Cash flows provided by operations during the second quarter of 2014 were $1,381 million, a decrease of $166 million compared to the second quarter of 2013. Cash flows used in financing were $222 million, primarily used for payment of dividends to the preferred and common shareholders of $336 million and a decrease in a line of credit of a subsidiary of $76 million, partly offset by the issuance of preferred shares of $200 million. For the three months ended June 30, 2014, cash flows were used by the Company to acquire an additional $1,172 million of investment assets.

For the six months ended June 30, 2014, cash and cash equivalents increased by $318 million from December 31, 2013. Cash flows provided by operations were $2,654 million, an increase of $542 million compared to the same period in 2013. Cash flows used in financing were $632 million, primarily used for payment of dividends to the preferred and common shareholders of $672 million and a decrease in a line of credit of a subsidiary of $142 million, partly offset by the issuance of preferred shares of $200 million. For the six months ended June 30, 2014, cash flows were used by the Company to acquire an additional $1,733 million of investment assets.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations have not changed materially from December 31, 2013.

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 operational risks 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. Other foreign operations and foreign subsidiaries are required to comply with local capital or solvency requirements in their respective jurisdictions. 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 MCCSR ratio. The internal target range of the MCCSR ratio for Lifeco's major Canadian operating subsidiaries is 175% to 215% (on a consolidated basis).

Great-West Life's MCCSR ratio at June 30, 2014 was 228% (223% at December 31, 2013). London Life's MCCSR ratio at June 30, 2014 was 258% (238% at December 31, 2013). Canada Life's MCCSR ratio at June 30, 2014 was 232% (231% at December 31, 2013). The MCCSR ratio does not take into account any impact from $0.7 billion of liquidity at the Lifeco holding company level at June 30, 2014 ($0.6 billion at December 31, 2013). In calculating the MCCSR position, available regulatory capital is reduced by goodwill and intangible assets, subject to a prescribed inclusion for a portion of intangible assets.

At January 1, 2013, the total impact to equity for the adoption of IAS 19R, *Employee Benefits*, at the consolidated Lifeco level was $575 million for accounting purposes. For MCCSR regulatory capital purposes, Great-West Life elected to phase in $454 million over eight quarters. Subsequent to the January 1, 2013 transition to IAS 19R, as per OSFI's 2013 MCCSR Guideline, quarterly re-measurements to defined benefit plans impacting available capital for the Company's federally-regulated subsidiaries will be amortized over twelve quarters.

Due to the evolving nature of IFRS, and proposed future changes to IFRS for the measurement of insurance contract liabilities, there will likely be further regulatory capital and accounting changes, some of which may be significant.

The Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The Company has 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 capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy and business plans. The Board of Directors reviews and approves the annual capital plan as well as all capital transactions undertaken by management pursuant to the plan.

OSFI Regulatory Capital Initiatives

OSFI has commenced work on a number of initiatives that either will have or may have application to the calculation and reporting of the MCCSR of the Company or certain of its subsidiaries.

These initiatives are discussed in the 2013 OSFI Life Insurance Regulatory Framework. Within the Framework, there are three broad categories specific to regulatory capital amounts: the review of methodology used to determine capital requirements in connection with segregated fund guarantees; the review of the qualifying criteria and capital components of Available Capital and the new regime for calculating capital requirements relating to credit, market, insurance and operational risk. In tandem with these reviews, OSFI will consider the extent of diversification benefits and hedging credits to reflect in its new framework.

The Company is presently reviewing the OSFI proposals that have been released to the industry to date, and is in ongoing dialogue with OSFI, the Canadian Institute of Actuaries, the Canadian Life and Health Insurance Association and other industry participants. The Company is also actively participating in OSFI Quantitative Impact Studies relating to its Life Insurance Regulatory Framework initiatives. At this point, the Company cannot determine what the final outcome of these initiatives will be.

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

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

Return on Equity	**June 30 2014**	March 31 2014	Dec. 31 2013
Canada	**23.7 %**	22.7 %	23.9 %
U.S. Financial Services (1)	**16.2 %**	17.6 %	17.8 %
U.S. Asset Management (Putnam)	**(4.5)%**	(5.3)%	(3.7)%
Europe	**14.4 %**	14.8 %	14.9 %
Lifeco Corporate (2)	**(18.3)%**	(19.4)%	(12.6)%
Total Lifeco Operating Earnings Basis (2)	**14.3 %**	14.5 %	15.0 %
Total Lifeco Net Earnings Basis	**15.8 %**	16.0 %	16.6 %

(1) Includes U.S. Corporate.

(2) The Company uses operating earnings, a non-IFRS financial measure, which excludes the impact of certain litigation provisions described in note 33 to the Company's December 31, 2013 consolidated financial statements.

ROE is the calculation of net earnings divided by the average common shareholders' equity over the trailing four quarters. The Company reported ROE based on net earnings of 15.8% compared to 16.6% at December 31, 2013, which includes the impact of certain litigation provisions. At June 30, 2014, the Company achieved a 14.3% ROE on operating earnings, which includes $96 million of Irish Life restructuring and acquisition charges incurred over the past twelve months. Excluding these charges, the ROE is 15.0%, which is in line with the Company's long-term objective.

RATINGS

Lifeco and its major operating subsidiaries received strong ratings from the five rating agencies that rate the Company as set out below. The operating companies below are assigned a "fleet" rating from each rating agency. This fleet rating is predominantly supported by the Company's leading position in the Canadian insurance market and competitive positions in the U.S. and Europe. 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 credit ratings in the second quarter of 2014.

Rating agency	Measurement	Lifeco	Great-West Life	London Life	Canada Life	Great-West Financial
A.M. Best Company	Financial Strength		A+	A+	A+	A+
DBRS Limited	Claims Paying Ability		IC-1	IC-1	IC-1	NR
	Senior Debt	AA (low)				
	Subordinated Debt				AA (low)	
Fitch Ratings	Insurer Financial Strength		AA	AA	AA	AA
	Senior Debt	A				
Moody's Investors Service	Insurance Financial Strength		Aa3	Aa3	Aa3	Aa3
Standard & Poor's Ratings Services	Insurer Financial Strength		AA	AA	AA	AA
	Senior Debt	A+				
	Subordinated Debt				AA-	

Irish Life is not part of the Company's fleet ratings but maintains its own credit ratings. Standard & Poor’s Ratings Services has assigned a counterparty credit rating of A- to Irish Life Assurance Plc (ILA). The ILA €200 million perpetual capital notes assumed on acquisition are rated BBB by both Standard & Poor's Ratings Services and Fitch Ratings.

RISK MANAGEMENT AND CONTROL PRACTICES

Derivative Financial Instruments

There were no major changes to the Company's policies and procedures with respect to the use of derivative financial instruments in the second quarter of 2014. 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 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. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was $50 million ($19 million at December 31, 2013) and pledged on derivative liabilities was $219 million ($222 million at December 31, 2013).

During the six month period ended June 30, 2014, the outstanding notional amount of derivative contracts decreased by $0.1 billion to $21.5 billion. The decrease was a result of the expiration of equity put options with an initial notional amount of $6.8 billion, mostly offset by an increase of $6.5 billion in forward settling to-be-announced security transactions and the impact of currency movement 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 $683 million at June 30, 2014 from $593 million at December 31, 2013. Market values increased on interest rate swaps that receive fixed rates and pay floating rates due to declining interest rates.

ACCOUNTING POLICIES

Due to the evolving nature of IFRS, there are a number of IFRS changes impacting the Company in 2014, as well as standards that could impact the Company in subsequent 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.

The Company adopted the guidance in the following standards effective January 1, 2014: IAS 32, *Financial Instruments: Presentation*, IAS 36, *Impairment of Assets*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRIC 21, *Levies*. The adoption did not have a significant impact on the Company’s financial statements.

IFRS that have changed or may change subsequent to 2014 and could impact the Company in future reporting periods, are set out in the following table:

New / Revised Standard	Summary of Future Changes
IFRS 4 - Insurance Contracts	The IASB issued a revised IFRS 4, *Insurance Contract*s exposure draft proposing changes to the accounting standard for insurance contracts in June 2013. The IASB continues to deliberate the proposals in this exposure draft. The proposed standard differs significantly from the Company's current accounting and actuarial practices under the Canadian Asset Liability Method (CALM) and is expected to produce more volatile financial results. The Company is actively monitoring developments in this area. The Company will continue to measure insurance contract liabilities under current accounting and actuarial policies, including CALM, until a new IFRS for insurance contract measurement is issued and effective.
IFRS 9 - Financial Instruments	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments* to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard provides changes to financial instruments accounting for the following: • classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset; • impairment based on an expected loss model; and • hedge accounting that incorporates the risk management practices of an entity. The standard is effective January 1, 2018. The Company is evaluating the impact this standard will have on its financial statements.
IAS 17 - Leases	The IASB issued a revised exposure draft in May 2013 proposing the right-of-use model, replacing the operating and finance lease accounting models that currently exist. The IASB continues to deliberate the proposals in the exposure draft. The full impact of adoption of the proposed changes will be determined once the final standard is issued.
IFRS 15 – Revenue from Contracts with Customers	In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers* which provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. The revenue arising from insurance contracts, leases and financial instruments are not required to apply the revenue recognition requirements in IFRS 15. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer. The standard is effective January 1, 2017. The Company is evaluating the impact of the adoption of this standard.

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. There are three primary business units included in this segment. Through its Individual Insurance business unit, the Company provides life, disability and critical illness insurance products to individual clients. Through its Wealth Management business unit, the Company provides accumulation products and annuity products for both group and individual clients in Canada. Through its Group Insurance business unit, the Company provides life, health, critical illness, disability and creditor insurance products to group clients in Canada.

Selected consolidated financial information - Canada

	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Premiums and deposits	**$ 5,770**	$ 7,028	$ 5,290	**$ 12,798**	$ 10,855
Sales	**2,904**	3,202	2,547	**6,106**	5,559
Fee and other income[(1)]	**356**	344	316	**700**	625
Net earnings - common shareholders	**304**	294	281	**598**	546
Total assets[(2)]	**$ 138,167**	$ 135,197	$ 124,695		
Proprietary mutual funds net assets	**4,587**	4,382	3,723		
Total assets under management	**142,754**	139,579	128,418		
Other assets under administration	**14,225**	13,812	13,632		
Total assets under administration	**$ 156,979**	$ 153,391	$ 142,050		

(1) The Company reclassified comparative figures for presentation adjustments adopted in 2013.
(2) Comparative figures have been restated for the retrospective impact of IFRS 10, *Consolidated Financial Statement*s.

2014 DEVELOPMENTS

- Premiums and deposits for the three months ended June 30, 2014 were $5,770 million, compared to $5,290 million for the same period in 2013.
- Sales for the three months ended June 30, 2014 were $2,904 million, compared to $2,547 million in the second quarter of 2013. This increase reflects strong Individual Insurance and Wealth Management sales slightly offset by lower Group Insurance sales in the small/mid-size case market during the second quarter of 2014.
- For the three months ended June 30, 2014, fee and other income was $356 million, an increase of $40 million from the same period last year.
- Net earnings for the three months ended June 30, 2014 were $304 million, compared to $281 million for the second quarter of 2013.
- In July 2014, Individual Insurance introduced a new service offering to be used when applying for life, critical illness or disability insurance that will benefit both clients and advisors. Key features of the offering include a web-based application, automatic status updates, electronic medical evidence ordering and receipt and instant approval of the insurance application for qualified clients. The Company expects the offering will result in a significant improvement in the average time to issue an insurance policy to clients.

BUSINESS UNITS - CANADA

INDIVIDUAL INSURANCE

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Premiums and deposits	**$ 1,122**	$ 1,077	$ 1,029	**$ 2,199**	$ 2,030
Sales	**125**	122	108	**247**	215
Net earnings	**97**	69	71	**166**	127

Premiums and deposits
Individual Insurance premiums in the second quarter of 2014 increased by $93 million to $1,122 million compared to the same quarter last year. Individual Life premiums for the quarter increased by $94 million to $1,041 million compared to the same quarter last year, primarily due to a 12% increase in participating life premiums. Living Benefits premiums for the quarter of $81 million were comparable to the same quarter last year.

For the six months ended June 30, 2014, Individual Insurance premiums increased by $169 million to $2,199 million compared to the same period last year. Individual Life premiums increased by $170 million to $2,035 million compared to the same period last year, primarily due to an 11% increase in participating life premiums. Living Benefits premiums of $164 million were comparable to the same period last year.

Individual Insurance premiums in the second quarter of 2014 increased by $45 million compared to the previous quarter, primarily due to an 8% increase in participating life premiums.

Sales
Individual Insurance sales in the second quarter of 2014 increased by $17 million to $125 million compared to the same quarter last year. Individual Life sales increased by $18 million to $116 million, driven by a 34% increase in participating life insurance sales. Living Benefits sales of $9 million were $1 million lower than the same quarter last year.

For the six months ended June 30, 2014, Individual Insurance sales increased by $32 million to $247 million compared to the same period last year. Individual Life sales increased by $37 million to $230 million, primarily due to a 28% increase in participating life insurance sales and a 17% increase in universal life insurance sales. Living Benefits sales of $17 million were $5 million lower than the same period last year.

Individual Insurance sales in the second quarter of 2014 increased by $3 million compared to the previous quarter. Individual Life sales increased by $2 million, primarily due to a 13% increase in term life insurance sales. Living Benefits sales were $1 million higher compared to the previous quarter.

Net earnings
Net earnings for the second quarter of 2014 increased by $26 million to $97 million compared to the same quarter of 2013. The increase was primarily a result of lower new business strain, driven by price increases and higher yields projected on assets backing new business, favourable investment experience and higher contributions from insurance contract liability basis changes, partially offset by less favourable morbidity and policyholder behaviour experience.

For the six months ended June 30, 2014, net earnings increased by $39 million to $166 million compared to the same period last year, primarily for the same reasons discussed for the in-quarter results.

Net earnings in the second quarter of 2014 increased by $28 million compared to the previous quarter. The increase was primarily due to higher contributions from insurance contract liability basis changes and favourable mortality experience, partially offset by less favourable investment and policyholder behaviour experience.

The net earnings attributable to the participating account were $24 million in the second quarter of 2014 compared to net earnings of $19 million in the second quarter of 2013. For the six months ended June 30, 2014, the net earnings attributable to the participating account were $46 million compared to net earnings of $34 million for the same period in 2013. The increase in both the in-quarter and year-to-date net earnings was primarily driven by lower new business strain.

The net earnings attributable to the participating account increased by $2 million from the first quarter of 2014.

WEALTH MANAGEMENT

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Premiums and deposits	**$ 2,736**	$ 4,051	$ 2,371	**$ 6,787**	$ 5,060
Sales	**2,673**	2,933	2,323	**5,606**	4,940
Fee and other income[(1)]	**301**	294	265	**595**	523
Net earnings	**113**	105	90	**218**	180

(1) The Company reclassified comparative figures for presentation adjustments adopted in 2013.

Premiums and deposits

Wealth Management premiums and deposits in the second quarter of 2014 increased by $365 million to $2,736 million compared to the same quarter last year. The increase was primarily driven by higher premiums relating to retail investment funds and single premium group annuities (SPGAs).

For the six months ended June 30, 2014, premiums and deposits increased by $1,727 million to $6,787 million compared to the same period last year. The increase was primarily driven by the conversion of certain pension plan assets into a segregated fund product in the first quarter of 2014. Premiums and deposits related to retail investment funds and SPGAs also contributed to the increase in the first six months of 2014.

Wealth Management premiums and deposits in the second quarter of 2014 decreased by $1,315 million compared to the previous quarter. The decrease was primarily due to the conversion of certain pension plan assets into a segregated fund product in the first quarter of 2014. Premiums and deposits related to retail investment funds were also lower in the second quarter of 2014 as compared to the first quarter of 2014 due to the positive impact of Registered Retirement Savings Plan (RRSP) season on first quarter premiums and deposits.

Sales

Wealth Management sales in the second quarter of 2014 increased by $350 million to $2,673 million compared to the same quarter last year. This result was driven by higher sales of retail investment funds and SPGAs.

For the six months ended June 30, 2014, sales increased by $666 million to $5,606 million compared to the same period last year. This result was primarily driven by higher sales of retail investment funds, group investment only products and SPGAs.

Wealth Management sales in the second quarter of 2014 decreased by $260 million compared to the previous quarter. This result was driven by lower sales of retail investment funds due to the positive impact of RRSP season on first quarter sales, partially offset by higher sales of SPGAs.

Net deposits for the second quarter of 2014 were $290 million compared to $162 million in the same quarter last year and $1,312 million in the previous quarter. For the six months ended June 30, 2014, net deposits were $1,602 million compared to $704 million in the same period last year. The growth in net deposits was due to the same drivers as the growth in premiums and deposits.

Fee and other income

Fee and other income for the second quarter of 2014 increased by $36 million to $301 million in the second quarter of 2014 compared to the same quarter in 2013. This increase was due to growth in assets under management driven by market gains and positive net cash flows, partially offset by lower fee margins.

For the six months ended June 30, 2014, fee and other income increased by $72 million to $595 million compared to the same period last year for the same reasons discussed for the in-quarter results.

Fee and other income in the second quarter of 2014 was $7 million higher compared to the previous quarter due to higher average assets under management.

Net earnings

Net earnings for the second quarter of 2014 increased by $23 million to $113 million compared to the same quarter last year. The increase was primarily a result of higher fee income, more favourable investment and mortality experience, partially offset by higher asset-based expenses and lower contributions from insurance contract basis changes.

For the six months ended June 30, 2014, net earnings increased by $38 million to $218 million compared to the same period last year. The increase was primarily a result of higher fee income and higher contributions from insurance contract basis changes, partially offset by higher asset-based expenses.

Net earnings in the second quarter of 2014 increased by $8 million compared to the previous quarter. This increase was primarily driven by higher fee income and more favourable investment experience, partially offset by lower contributions from insurance contract basis changes and less favourable mortality experience.

GROUP INSURANCE

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Premiums and deposits	**$ 1,912**	$ 1,900	$ 1,890	**$ 3,812**	$ 3,765
Sales	**106**	147	116	**253**	404
Fee and other income	**38**	38	38	**76**	75
Net earnings	**92**	109	118	**201**	213

Premiums and deposits
Premiums and deposits for the second quarter of 2014 increased by $22 million to $1,912 million compared to the same period last year, primarily due to an increase in small/mid-size and large case market premiums and deposits.

For the six months ended June 30, 2014, premiums and deposits increased by $47 million to $3,812 million compared to the same period in 2013. The increase was due to the same reasons as discussed for the in-quarter results.

Premiums and deposits in the second quarter of 2014 increased by $12 million compared to the previous quarter, primarily due to an increase in large case premiums and deposits.

Sales
Sales for the second quarter of 2014 decreased by $10 million to $106 million compared to the same quarter last year. The decrease was primarily due to lower sales in the small/mid-size case market.

For the six months ended June 30, 2014, sales decreased by $151 million to $253 million compared to the same period last year. The decrease was primarily due to lower creditor sales in the large case market. Sales of creditor/direct marketing products can be highly variable from quarter to quarter.

Sales in the second quarter of 2014 decreased by $41 million compared to the previous quarter, primarily due to lower creditor sales mainly due to one large sale in the previous quarter.

Fee and other income
Fee and other income is derived primarily from ASO contracts, whereby the Company provides group insurance benefit plan administration on a cost-plus basis.

Fee and other income of $38 million for the three month period ended June 30, 2014 was both comparable to the same quarter in 2013 and the previous quarter.

Fee and other income of $76 million for the six month period ended June 30, 2014 was comparable to the same period in 2013.

Net earnings
Net earnings for the second quarter of 2014 decreased by $26 million to $92 million compared to the same quarter last year, primarily due to less favourable morbidity experience. In addition, net earnings in the second quarter of 2013 were positively impacted by changes to certain income tax estimates which did not recur in 2014.

For the six months ended June 30, 2014, net earnings decreased by $12 million to $201 million compared to the same period last year. The decrease was primarily due to the same reasons discussed for the in-quarter results, partially offset by higher contributions from insurance contract liability basis changes and favourable investment experience.

Net earnings decreased by $17 million compared to the previous quarter, primarily due to lower contributions from insurance contract liability basis changes and less favourable morbidity experience.

CANADA CORPORATE

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

Canada Corporate net earnings were comparable to the second quarter of 2013. Lower mark-to-market gains on investment properties supporting Corporate Surplus were offset by a decrease in reserves for uncertain tax positions and lower preferred share dividends due to the redemption of preferred shares in the fourth quarter of 2013.

For the six months ended June 30, 2014, Canada Corporate had net earnings of $13 million compared to $26 million for the same period in 2013. During the first quarter of 2013, the Company completed a review of remaining contingent liabilities relating to the cost of acquiring Canada Life Financial Corporation in 2003 and determined that most provisions were no longer required. This positively impacted net earnings by $23 million in 2013. Excluding the impact of this recovery in 2013, net earnings were $10 million higher in 2014, primarily due to lower preferred share dividends due to the redemption of preferred shares in the fourth quarter of 2013 and a decrease in reserves for uncertain tax positions.

Net earnings for the three months ended June 30, 2014 in Canada Corporate were $2 million compared to net earnings of $11 million in the previous quarter. The $9 million decrease was primarily due to lower investment income, partially offset by a decrease in reserves for uncertain tax positions.

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, the Company provides an array of financial security products, including employer-sponsored defined contribution plans, administrative and recordkeeping services, fund management and investment and advisory services. It also provides individual retirement accounts, life insurance and annuity products and executive benefits products. Through its Asset Management business unit, the Company provides investment management, certain administrative functions, distributions and related services through a broad range of investment products.

<u>Organizational Developments</u>

- On March 20, 2014, the Company announced that Robert L. Reynolds was appointed President and Chief Executive Officer of Great-West Lifeco U.S. Inc., the parent company of Great-West Financial and Putnam. Mr. Reynolds also assumed the position of President and Chief Executive Officer of Great-West Financial upon the retirement of Mitchell Graye in May 2014, and will continue as President and Chief Executive Officer of Putnam.
- The Company has begun working on combining the retirement services businesses of Great-West Financial and Putnam, announced in the first quarter of 2014, and expects to be substantially complete by the end of 2014.
- On April 3, 2014, the Company announced that Great-West Financial reached an agreement to acquire the J.P. Morgan Retirement Plan Services large-market recordkeeping business. The transaction is scheduled to close in the third quarter of 2014, subject to regulatory approval in the U.S. This business will be administered within the combined retirement services business unit discussed above.

Selected consolidated financial information - United States

	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Premiums and deposits	**$ 9,638**	$ 11,780	$ 7,911	**$ 21,418**	$ 16,778
Sales	**10,480**	13,159	9,026	**23,639**	18,976
Fee and other income[(1)]	**436**	419	349	**855**	686
Net earnings - common shareholders	**69**	41	73	**110**	144
Net earnings - common shareholders (US$)	**63**	37	71	**100**	141
Total assets	**$ 66,743**	$ 68,362	$ 64,278		
Proprietary mutual funds and institutional net assets[(1)]	**176,577**	177,063	145,326		
Total assets under management	**243,320**	245,425	209,604		
Other assets under administration	**203,517**	207,348	168,498		
Total assets under administration	**$ 446,837**	$ 452,773	$ 378,102		

(1) The Company reclassified comparative figures for presentation adjustments adopted in 2013.

BUSINESS UNITS – UNITED STATES

TRANSLATION OF FOREIGN CURRENCY

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

Currency translation impact is a non-IFRS financial measure that highlights the impact of changes in currency translation rates on IFRS results. Refer to the Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

FINANCIAL SERVICES

2014 DEVELOPMENTS

- For the six months ended June 30, 2014, sales were US$5.1 billion, up 3% over the same period last year primarily related to higher Individual Markets sales, which experienced a 65% increase over last year. Within Individual Markets, community bank sales increased 229% contributing to a 28% market share (as at March 31, 2014) increasing from a 6% market share in the previous year (as at March 31, 2013). The retail bank market experienced a 51% increase in sales over last year driven by bank sold single premium universal life insurance, contributing to a 33% market share (as at March 31, 2014) increasing from a 25% market share in the previous year (as at March 31, 2013).
- Premiums and deposits for the six months ended June 30, 2014 were US$3.1 billion, up 11% over the same period last year, primarily due to higher Individual Markets executive benefits sales.
- Fee and other income for the three months ended June 30, 2014 was US$173 million, an increase of US$20 million from the same period last year, primarily due to increased average asset levels driven by higher average equity market levels and positive cash flows.
- In a June Spectrem Group survey, financial advisors ranked Great-West Financial No. 1 in overall conversion experience. Great-West Financial consistently ranked near 90 percent satisfaction across five key conversion rating criteria used by financial advisors.

- The Great-West Lifetime Funds celebrated their five-year anniversary. Since bringing this unique offering to the market, these funds have grown to more than US$5.5 billion in assets, making Great-West Funds, Inc. the 14th largest target date fund provider in the U.S.
- In the second quarter of 2014, Great-West Financial introduced its RetireBright[SM] Solutions Suite, which helps enhance retirement readiness by providing personalized, actionable and measurable retirement readiness strategies.
- Great-West Financial's mobile site ranked No. 2 for the first quarter of 2014 in DALBAR's Mobile INSIGHT rankings and qualified for DALBAR's Mobile Seal of Excellence.

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Premiums and deposits	**$ 1,597**	$ 1,808	$ 1,412	**$ 3,405**	$ 2,846
Sales	**2,439**	3,187	2,527	**5,626**	5,044
Fee and other income[(1)]	**189**	185	156	**374**	302
Net earnings	**78**	94	87	**172**	172
Premiums and deposits (US$)	**$ 1,465**	$ 1,644	$ 1,385	**$ 3,109**	$ 2,805
Sales (US$)	**2,238**	2,897	2,478	**5,135**	4,970
Fee and other income (US$)[(1)]	**173**	169	153	**342**	299
Net earnings (US$)	**71**	85	85	**156**	169

(1) The Company reclassified comparative figures for presentation adjustments adopted in 2013.

Premiums and deposits

Premiums and deposits for the second quarter of 2014 increased by US$80 million to US$1,465 million compared to the second quarter of 2013, due to an increase of US$198 million in Individual Markets, partly offset by a decrease of US$118 million in Retirement Services. The increase in Individual Markets was primarily due to higher sales in the executive benefits market of US$112 million and higher sales in the retail bank life insurance market of US$64 million. The decrease in Retirement Services was primarily due to a decrease of US$161 million for 401(k), as a result of lower transfers from retail investment options and a decrease of US$71 million related to the public/non-profit market. These decreases were partly offset by an increase of US$114 million in institutional market premiums and deposits, due to higher group annuity product sales.

For the six months ended June 30, 2014, premiums and deposits increased by US$304 million to US$3,109 million compared to the same period in 2013, due to an increase of US$305 million in Individual Markets. The increase in Individual Markets was primarily related to higher sales in the executive benefits market of US$188 million and higher sales in the retail bank life insurance market of US$86 million.

Compared to the previous quarter, premiums and deposits were down by US$179 million, due to a decrease of US$205 million in Retirement Services offset by an increase of US$26 million in Individual Markets. The decrease in Retirement Services was primarily due to one large plan merger experienced in first quarter of 2014 in the public/non-profit market and lower 401(k) participant contributions to the general fund and separate account investment options. Individual Markets' increase in premiums and deposits was primarily due to higher sales in the retail bank life insurance market.

Sales

In the second quarter of 2014, sales decreased by US$240 million to US$2,238 million compared to the same period of 2013, due to a decrease of US$425 million in Retirement Services, partly offset by an increase of US$185 million in Individual Markets. The decrease in Retirement Services was primarily due to lower public/non-profit market sales of US$348 million and lower 401(k) sales of US$172 million, as lower plan sales were only partly offset by higher transferred assets from participants of existing plans. These decreases in Retirement Services' sales were partly offset by higher institutional market sales of US$95 million, driven by higher group annuity product sales. The increase in Individual Markets was primarily related to higher sales in the executive benefits market of US$88 million, driven by the continued success of the community bank market, higher retail bank life insurance market sales of US$63 million and higher sales in the IRA and individual annuity markets of US$34 million.

For the six months ended June 30, 2014, sales increased by US$165 million to US$5,135 million compared to the same period of 2013, driven by an increase of US$333 million in Individual Markets offset by a decrease of US$168 million in Retirement Services. The increase in Individual Markets was primarily due to higher sales in the executive benefits market of US$159 million, driven by the continued success of the community bank market, higher sales in the IRA and individual annuity markets of US$88 million and higher retail bank life insurance market sales of US$86 million. The decrease in Retirement Services was due to lower public/non-profit market sales of US$279 million and lower 401(k) sales of US$108 million, offset by higher institutional market sales of US$219 million driven by higher group annuity product sales.

Sales in the second quarter of 2014 decreased by US$659 million compared to the previous quarter due to a decrease of US$727 million in Retirement Services, offset by an increase of US$68 million in Individual Markets. The decrease in Retirement Services was primarily due to lower plan sales of US$662 million. The increase in Individual Markets was primarily due to higher retail bank insurance market sales of US$44 million.

Fee and other income

Fee and other income for the second quarter of 2014 increased by US$20 million to US$173 million compared to the second quarter of 2013, primarily due to increased average asset levels driven by higher average equity market levels and positive cash flows.

For the six months ended June 30, 2014, fee and other income increased by US$43 million to US$342 million compared to the same period last year due to the same reasons discussed for the in-quarter results.

Fee and other income for the second quarter of 2014 increased by US$4 million compared to the previous quarter, primarily due to increased average asset levels driven by higher average equity market levels and positive cash flows.

Net earnings

Net earnings for the second quarter of 2014 decreased by US$14 million to US$71 million compared to the second quarter of 2013. Higher fee income was more than offset by higher expenses in part related to increased distribution costs and sales commissions from business growth. In addition, net earnings in the second quarter of 2013 were positively impacted by one-time investment gains and basis changes and which did not recur in the second quarter of 2014.

For the six months ended June 30, 2014, net earnings decreased by US$13 million to US$156 million compared to the same period in 2013, primarily due to the same reasons discussed for the in-quarter results.

Net earnings for the second quarter of 2014 decreased by US$14 million compared to the first quarter of 2014, primarily due to lower mortality gains of US$6 million, less favourable investment experience of US$3 million and higher expenses in second quarter, which includes expenses related to the pending acquisition of the J.P. Morgan Retirement Plan Services large-market recordkeeping business.

ASSET MANAGEMENT

2014 DEVELOPMENTS

- Putnam's ending assets under management (AUM) at June 30, 2014 of US$159 billion increased by US$25 billion compared to the same period last year, primarily due to favourable financial markets, investment performance and net asset inflows.
- Putnam's gross sales for the three months ended June 30, 2014 increased by US$1.0 billion compared to the same period last year, primarily from strong mutual fund sales.
- For the three months ended June 30, 2014, fee and other income was US$227 million, an increase of US$38 million compared to the same period last year and US$15 million to the previous quarter.
- Putnam continues to sustain strong risk-adjusted investment performance relative to its peers. During the six months ended June 30, 2014, approximately 70% of Putnam's fund assets performed at levels above the Lipper median, while 83% of fund assets on both a one-year and three-year basis, and 78% of fund assets on a five-year basis performed above the Lipper median. Additionally, approximately 61% and 56% of Putnam's fund assets performed at levels in the Lipper Top Quartile on a one-year and five-year basis, respectively.

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Premiums and deposits	**$ 8,041**	$ 9,972	$ 6,499	**$ 18,013**	$ 13,932
Fee and other income					
Investment management fees	**182**	175	144	**357**	284
Performance fees	**7**	3	1	**10**	2
Service fees	**44**	43	37	**87**	73
Underwriting & distribution fees	**14**	13	11	**27**	25
Fee and other income	**247**	234	193	**481**	384
Net loss	**(9)**	(53)	(14)	**(62)**	(28)
Premiums and deposits (US$)	**$ 7,377**	$ 9,065	$ 6,372	**$ 16,442**	$ 13,731
Fee and other income (US$)					
Investment management fees (US$)	**168**	158	141	**326**	280
Performance fees (US$)	**6**	3	1	**9**	2
Service fees (US$)	**40**	39	36	**79**	72
Underwriting & distribution fees (US$)	**13**	12	11	**25**	24
Fee and other income (US$)	**227**	212	189	**439**	378
Net loss (US$)	**(8)**	(48)	(14)	**(56)**	(28)

Premiums and deposits

For the three months ended June 30, 2014, premiums and deposits increased by US$1.0 billion to US$7.4 billion compared to the same period in 2013 as a result of stronger overall mutual fund sales, which increased by US$1.7 billion, partially offset by a decrease in institutional sales of US$703 million.

For the six months ended June 30, 2014, premiums and deposits increased by US$2.7 billion to US$16.4 billion compared to the same period in 2013, due to improved mutual fund sales of US$4.4 billion, partially offset by lower institutional sales of US$1.7 billion.

Premiums and deposits decreased by US$1.7 billion compared to the previous quarter due to a decrease in institutional sales of US$989 million and a decrease in mutual fund sales of US$699 million, which were at their highest levels since 2003 in the previous quarter.

Fee and other income

Revenue is derived primarily from investment management fees, performance fees, transfer agency and other service fees, and 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.

Fee and other income for the second quarter of 2014 increased by US$38 million to US$227 million compared to the same period in 2013, primarily due to an increase in investment management fees and other asset and sales-based fees from higher average AUM. The increase was also due to higher sales and number of accounts and an increase in performance fees.

For the six months ended June 30, 2014, fee and other income increased by US$61 million to US$439 million compared to the previous year for the same reasons as discussed for the in-quarter results.

Fee and other income for the second quarter of 2014 increased by US$15 million to US$227 million compared to the previous quarter, primarily due to an increase in investment management fees from higher average AUM and an increase in performance fees due to seasonality in which these fees are earned.

Net earnings

For the second quarter of 2014, the net loss was US$8 million compared to a net loss of US$14 million in the same period a year ago. The decrease in the net loss was primarily a result of higher fee revenue and net investment income, partially offset by higher compensation costs related to strong investment performance, higher asset and sales-based expenses and taxes.

For the six months ended June 30, 2014, the net loss was US$56 million, an increase of US$28 million compared to the same period last year. The current year includes the impact of share-based compensation expense of US$21 million (US$2 million in the same period of 2013), a change in U.S. tax rates of US$5 million and proxy expenses for the Putnam Funds of US$4 million. Excluding these items, the six months ended June 2014 net loss was comparable to the same period last year, as increases in fee income and net investment income were offset by higher compensation costs related to strong investment performance, higher asset and sales-based expenses and other expenses.

The net loss for the second quarter of 2014 decreased by US$40 million compared to the previous quarter. The previous quarter includes the impact of share-based compensation expense of US$21 million and the change in U.S. state tax rates and proxy expenses for the Putnam Funds which did not recur in the second quarter. During the first quarter of 2014, the Company modified certain Putnam share-based compensation plans. As a result, these plans are now classified as equity-settled share based payment transactions wherein compensation expense is measured by reference to the fair value of the equity instruments at grant date with a corresponding increase to equity. Excluding these items, the second quarter 2014 net loss decreased by US$11 million as compared to the previous quarter. The decrease was primarily due to higher fee and net investment income, which included one-time gains of US$5 million on the redemption of seed capital as a result of successful product launches.

ASSETS UNDER MANAGEMENT

Assets under management
(US$ millions)

	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Beginning assets	**$ 153,432**	$ 149,556	$ 134,714	**$ 149,556**	$ 128,329
Sales - Mutual funds	**5,677**	6,376	3,969	**12,053**	7,679
Redemptions - Mutual funds	**(3,986)**	(3,929)	(3,896)	**(7,915)**	(7,254)
Net asset flows - Mutual funds	**1,691**	2,447	73	**4,138**	425
Sales - Putnam Institutional	**1,700**	2,689	2,403	**4,389**	6,052
Redemptions - Putnam Institutional	**(3,222)**	(4,046)	(2,883)	**(7,268)**	(7,198)
Net asset flows - Putnam Institutional	**(1,522)**	(1,357)	(480)	**(2,879)**	(1,146)
Net asset flows - Total	**169**	1,090	(407)	**1,259**	(721)
Impact of market/performance	**4,970**	2,786	(622)	**7,756**	6,077
Ending assets	**$ 158,571**	$ 153,432	$ 133,685	**$ 158,571**	$ 133,685
Average assets under management					
Mutual funds	**82,016**	78,406	66,975	80,240	66,018
Institutional assets	**72,516**	72,034	68,796	72,279	68,493
Total average assets under management	**$ 154,532**	$ 150,440	$ 135,771	$ 152,519	$ 134,511

Average AUM for the three months ended June 30, 2014 was US$154.5 billion. Average AUM increased by US$18.8 billion compared to the three months ended June 30, 2013, primarily due to the cumulative impact of positive market and investment performance on AUM and net asset inflows. Net asset inflows for the second quarter of 2014 were US$0.2 billion compared to net outflows of US$0.4 billion in the same quarter last year. Net inflows were driven by in-quarter mutual fund net asset inflows of US$1.7 billion.

Average AUM for the six months ended June 30, 2014 increased by US$18.0 billion compared to the same period last year to US$152.5 billion due to the same reasons discussed for the three month period. Net asset inflows for the six months ended June 30, 2014 were US$1.3 billion compared to net outflows of US$0.7 billion in the prior year, driven by mutual fund net asset inflows of US$4.1 billion.

Average AUM increased by US$4.1 billion compared to the previous quarter primarily due to the impact of positive market performance as well as slightly positive net asset inflows.

UNITED STATES CORPORATE

United States Corporate consists of items not associated directly with or allocated to the United States business units.

United States Corporate net earnings were nil for the current and comparative periods.

EUROPE

The Europe segment comprises two distinct business units: Insurance & Annuities, where the Company offers protection and wealth management products including payout annuity products through subsidiaries of Canada Life in the U.K., Isle of Man, Germany and through Irish Life in Ireland; and Reinsurance, which operates primarily in the U.S., Barbados and Ireland. Reinsurance products are provided through Canada Life, London Life and their subsidiaries.

TRANSLATION OF FOREIGN CURRENCY

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

Currency translation impact is a non-IFRS financial measure that highlights the impact of changes in currency translation rates on IFRS results. 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 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Premiums and deposits[1]	**$ 4,944**	$ 5,089	$ 2,057	**$ 10,033**	$ 4,616
Fee and other income[1]	**318**	296	166	**614**	318
Net earnings - common shareholders	**246**	259	178	**505**	370
Total assets[1][2]	**$ 139,470**	$ 139,301	$ 75,832		
Proprietary mutual funds and institutional net assets	**18,949**	18,476	-		
Total assets under management	**158,419**	157,777	75,832		
Other assets under administration[2]	**42,337**	41,953	117		
Total assets under administration	**$ 200,756**	$ 199,730	$ 75,949		

(1) The Company reclassified comparative figures for presentation adjustments adopted in 2013.
(2) Comparative figures have been restated for the retrospective impact of IFRS 10, *Consolidated Financial Statements.*

2014 Developments

Irish Life was acquired in the third quarter of 2013 and has resulted in significant growth in the Europe segment. The contribution to the Europe segment from Irish Life for the three and six months ended June 30, 2014 is as follows:

Selected consolidated financial information - Europe

	For the three months ended June 30, 2014			For the six months ended June 30, 2014		
	Irish Life[1]	Non-Irish Life	Total	Irish Life[1]	Non-Irish Life	Total
Premiums and deposits	$ 2,356	$ 2,588	$ 4,944	5,214	4,819	10,033
Fee and other income	153	165	318	273	341	614
Net earnings - common shareholders	49	197	246	96	409	505
Net earnings - common shareholders excluding restructuring costs	57	197	254	109	409	518
Total assets	$ 56,540	$ 82,930	$ 139,470			
Proprietary mutual funds and institutional net assets	18,684	265	18,949			
Total assets under management	75,224	83,195	158,419			
Other assets under administration	42,337	-	42,337			
Total assets under administration	**$ 117,561**	**$ 83,195**	**$ 200,756**			

(1) Beginning in the second quarter of 2014, the financial information above includes both Irish Life and Canada Life (Ireland) reflecting the integration of the businesses.

- Net earnings for the three months ended June 30, 2014 were $246 million, up $68 million from the same period last year. Irish Life contributed $57 million of net earnings, excluding restructuring charges of $8 million, during the quarter.
- Premiums and deposits for the three months ended June 30, 2014 were $4.9 billion, up $2.9 billion compared to the same period of 2013, mainly due to the $2.4 billion contribution from Irish Life and a $0.6 billion increase in Reinsurance.
- Insurance & Annuities sales for the three months ended June 30, 2014 were $2.8 billion, up $1.9 billion compared to the same period of 2013 driven by Irish Life sales of $2.1 billion.
- Fee and other income for the three months ended June 30, 2014 was $318 million, up $152 million compared to the same period of 2013, primarily due to the contribution from Irish Life.
- In the second quarter of 2014, the Company achieved €4.8 million (€13.5 million year-to-date) of annualized synergies. The 2014 synergies of €13.5 million have resulted in a €2.4 million reduction in expenses in-quarter (€3.7 million year-to-date). Since the acquisition of Irish Life, €28.1 million in annualized synergies have been achieved resulting in an €11.0 million reduction of expenses in the first half of 2014.
- For the second year running, Canada Life International was awarded "Best International Life Group U.K." and "Best International Trust and Estate Planning Bond" provider at the Professional Adviser International Fund & Product Awards 2014.
- At the European Pensions Awards 2014, Irish Life Investment Managers won "Equities Manager of the Year" and "Passive Manager of the Year".
- During the second quarter of 2014, Canada Life launched term life and income protection products to the mass market in Germany.

- In the second quarter of 2014, Canada Life's Reinsurance division entered into an annuity reinsurance agreement with a Dutch-based life and pension insurer. The agreement, covering a closed block of approximately 20,000 temporary annuity contracts, has an inception premium of approximately €540 million with no ongoing premium payments. In exchange for the initial premium, Canada Life will make the annuity payments on the underlying policies.
- The 2014 U.K. Budget introduced greater flexibility for those with defined contribution pensions to access their savings in retirement. The main changes are planned to be effective from April 2015, following consultation, and will impact the future sales of annuities in the U.K. The Company's earnings contribution from the U.K. annuity market comes from new sales, existing in-force business and include yield enhancement on the in-force business. The earnings contribution from the in-force business is more significant than the earnings contribution from new sales. The in-force U.K. annuity business is unaffected by the U.K. Budget changes. Moody's Investors Service expected that the volume of annuities sold in the U.K. could decline by between 50% to 75%, while the changes would bring opportunities for insurers to develop a wider range of alternative products. In the second quarter, the Company's U.K. annuity sales were 55% of the sales levels in the first quarter.
- In Europe, the Company has a number of Solvency II related initiatives underway including establishing an intermediate European holding company. Primarily all of the Company's regulated European insurance companies, and the intermediate European holding company, will be subject to Solvency II regulation. The Company is subject to increased regulatory uncertainty over the near term as the Company moves toward implementing Solvency II.
- In March 2014, the Financial Conduct Authority in the U.K. announced plans to review this summer a representative sample of insurance firms' closed accounts to evaluate if customers are being treated fairly. The Company's U.K. subsidiary has not been selected for review. The regulator's objective is to assess whether there is an issue that requires action; however, no conclusions have been reached as work on this initiative has only just started.

BUSINESS UNITS – EUROPE

INSURANCE & ANNUITIES

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Premiums and deposits	**$ 3,498**	$ 4,112	$ 1,257	**$ 7,610**	$ 2,517
Sales	**2,814**	3,506	889	**6,320**	1,850
Fee and other income	**307**	286	156	**593**	297
Net earnings	**184**	200	118	**384**	248

Premiums and deposits
Premiums and deposits for the second quarter of 2014 increased by $2.2 billion to $3.5 billion compared to the same period in 2013. The increase was due to the contribution of $2.4 billion from Irish Life and currency movement, partly offset by lower sales of U.K. payout annuities.

For the six months ended June 30, 2014, premiums and deposits increased by $5.1 billion to $7.6 billion compared to the same period last year, primarily due to Irish Life's contribution of $5.2 billion and currency movement. These increases were partly offset by lower U.K. payout annuity and single premium savings product sales.

Premiums and deposits for the second quarter of 2014 decreased by $0.6 billion compared to the previous quarter, due to lower Ireland fund management sales and lower U.K. payout annuity sales.

Sales

Sales for the second quarter of 2014 increased by $1.9 billion to $2.8 billion compared to the same period of 2013, primarily driven by the $2.1 billion contribution from Irish Life and currency movement. The increase was partly offset by a reduction in U.K. payout annuity sales primarily driven by changes announced in the 2014 U.K. Budget.

For the six months ended June 30, 2014, sales increased by $4.5 billion to $6.3 billion compared to the same period last year. The increase was due to a $4.7 billion contribution from Irish Life and currency movement, partly offset by lower sales in U.K. payout annuity and single premium savings products.

Sales for the second quarter of 2014 decreased by $0.7 billion from the previous quarter, mainly due to the $0.5 billion reduction in Ireland sales reflecting normal fluctuations in fund management sales. The remainder of the decline is due to the reduction in U.K. payout annuity sales reflecting the impact of the proposed 2014 U.K. Budget changes.

Fee and other income

Fee and other income for the second quarter of 2014 increased by $151 million to $307 million compared to the same period in 2013, primarily due to the contribution from Irish Life and currency movement.

For the six months ended June 30, 2014, fee and other income increased by $296 million to $593 million compared to the same period last year, mainly due to the contribution of $273 million from Irish Life and currency movement.

Fee and other income in the second quarter of 2014 increased by $21 million compared to the previous quarter, mainly due to higher fees in Ireland from asset growth and surrender fees in U.K. The pattern of sales and surrenders on certain shorter term single premium investment products can cause surrender fees to fluctuate from quarter to quarter.

Net earnings

Net earnings for the second quarter of 2014 increased by $66 million to $184 million compared to the same quarter last year. Irish Life contributed $57 million, excluding restructuring costs, to net earnings during the quarter. Excluding the contribution from Irish Life, net earnings increased by $9 million compared to the same quarter last year, primarily due to currency movements as well as more favourable mortality and morbidity experience in U.K. group insurance operations. These increases were partly offset by less favourable investment experience and lower payout annuity new business volumes and margins.

Net earnings for the six months ended June 30, 2014 increased by $136 million to $384 million compared to the same period last year. Irish Life contributed $109 million, excluding restructuring costs, to net earnings during the period. Excluding the year-to-date contribution from Irish Life, net earnings for the six months ended June 30, 2014 increased by $27 million compared to the same period last year, primarily due to more favourable mortality and morbidity experience in the U.K. and the favourable impact of currency movements. These increases were partly offset by less favourable investment experience and lower payout annuity new business volumes and margins.

Net earnings for the second quarter of 2014 decreased by $16 million compared to the first quarter of 2014, primarily due to less favourable investment and mortality experience in the U.K. and lower payout annuity new business volumes, partly offset by more favourable morbidity experience in the U.K.

REINSURANCE

OPERATING RESULTS

	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Premiums and deposits[(1)]	**$ 1,446**	$ 977	$ 800	**$ 2,423**	$ 2,099
Fee and other income[(1)]	**11**	10	10	**21**	21
Net earnings	**72**	63	70	**135**	125

(1) The Company reclassified comparative figures for presentation adjustments adopted in 2013.

Premiums and deposits
Premiums and deposits for the second quarter of 2014 increased by $646 million to $1.4 billion compared to the same quarter last year. The increase was primarily due to a new Dutch-based annuity reinsurance agreement entered into during the second quarter of 2014 and currency movement, partly offset by the commutation of a health reinsurance treaty.

For the six months ended June 30, 2014, premiums and deposits increased by $324 million to $2.4 billion compared to the same period last year due to the same reasons discussed for the in-quarter results.

Premiums and deposits for the second quarter of 2014 increased by $469 million compared to the previous quarter, primarily due to a new Dutch-based annuity reinsurance agreement, partly offset by the commutation of a health reinsurance treaty.

Fee and other income
The reinsurance business earns fee income primarily in the life business with the fees driven by volume of coverage provided.

Fee and other income of $11 million for the second quarter of 2014 was comparable to the same quarter in 2013 and to the previous quarter.

For the six months ended June 30, 2014, fee and other income of $21 million was comparable to the same period last year.

Net earnings
Net earnings for the second quarter of 2014 increased by $2 million to $72 million compared to the same quarter in 2013. Favourable net earnings in the life and annuity businesses as well as currency movements were partly offset by less favourable claims, lapse and mortality experience.

For the six months ended June 30 2014, net earnings increased by $10 million to $135 million compared to the same period last year. Favourable net earnings in the life and annuity businesses as well as currency movement were partly offset by less favourable investment and claims experience.

Net earnings for the second quarter of 2014 increased by $9 million compared to the previous quarter. Net earnings in the second quarter of 2014 were positively impacted by new business gains and favourable in-quarter claims experience, partly offset by less favourable lapse and mortality experience.

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 2014, Europe Corporate had a net loss of $10 million compared to a net loss of $10 million for the same period in 2013. Second quarter 2014 results include restructuring charges of $8 million related to the acquisition of Irish Life, compared to Irish Life acquisition related costs of $10 million in the second quarter of 2013.

For the six months ended June 30, 2014, Europe Corporate had a net loss of $14 million compared to a net loss of $3 million for the same period in 2013. Included in the year-to-date net loss was $13 million of restructuring costs related to the acquisition of Irish Life in 2014 compared to $14 million of costs associated with the acquisition of Irish Life for the same period in 2013. Excluding these charges, the net loss for the six months ended June 30, 2014 was $1 million compared to net earnings of $11 million for the same period of 2013. During the first half of 2013, the Company completed a review of remaining contingent liabilities relating to the cost of acquiring Canada Life Financial Corporation in 2003 and determined that most provisions were no longer required. This positively impacted net earnings by $11 million in 2013 and did not recur in 2014.

The net loss for the three months ended June 30, 2014 increased by $6 million from the first quarter of 2014, primarily due to higher restructuring charges related to Irish Life and higher expenses incurred in Europe Corporate in the second quarter of 2014.

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, 2014, Lifeco Corporate had a net loss of $4 million compared to a net loss of $11 million in the second quarter of 2013. The decrease in the net loss was primarily due to higher investment income and lower financing charges. In 2013, financing charges related to the euro-denominated debt issued as part of the Irish Life acquisition were included in Lifeco Corporate results. In 2014, these financing charges are included with the Europe results.

For the six months ended June 30, 2014, Lifeco Corporate had a net loss of $11 million compared to a net loss of $22 million in the same period in 2013. The net loss decreased by $11 million as compared to the same period in 2013 due to the same reasons discussed for the in-quarter results.

The net loss for the three months ended June 30, 2014 in Lifeco Corporate decreased by $3 million to $4 million compared to the previous quarter. The decrease was primarily due to mark-to-market losses on a macro capital hedge in the first quarter of 2014, which did not recur in the second quarter.

OTHER INFORMATION

QUARTERLY FINANCIAL INFORMATION

Quarterly financial information (in $ millions, except per share amounts)	2014		2013				2012	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue[1]	**$10,070**	$ 9,937	$ 8,056	$ 7,206	$ 3,628	$ 7,556	$ 7,305	$ 8,756
Common Shareholders Net earnings								
Total	**615**	587	717	523	521	517	351	518
Basic - per share	**0.616**	0.587	0.717	0.527	0.548	0.544	0.370	0.546
Diluted - per share	**0.615**	0.587	0.716	0.522	0.547	0.544	0.369	0.542
Operating earnings[2]								
Total	**615**	587	491	523	521	517	491	518
Basic - per share	**0.616**	0.587	0.491	0.527	0.548	0.544	0.517	0.546
Diluted - per share	**0.615**	0.587	0.490	0.522	0.547	0.544	0.514	0.542

(1) The Company reclassified comparative figures for presentation adjustments in 2013.
(2) Operating earnings, a non-IFRS financial measure, excludes the impact of certain litigation provisions. Refer to the "Cautionary Note Regarding Non-IFRS Financial Measures" section of this document.

Lifeco's consolidated net earnings attributable to common shareholders were $615 million for the second quarter of 2014 compared to $521 million reported a year ago. On a per share basis, this represents $0.616 per common share ($0.615 diluted) for the second quarter of 2014 compared to $0.548 per common share ($0.547 diluted) a year ago.

Total revenue for the second quarter of 2014 was $10,070 million and comprises premium income of $5,764 million, regular net investment income of $1,526 million, a positive change in fair value through profit or loss on investment assets of $1,670 million and fee and other income of $1,110 million.

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 in the Company's internal control over financial reporting during the six month period ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitation on Disclosure Controls and Procedures & Internal Control Over Financial Reporting

As permitted by securities legislation, for the period ended June 30, 2014, the Company's management has limited the scope of its design of the Company's disclosure controls and procedures and the Company's internal control over financial reporting to exclude controls, policies and procedures of Irish Life, which the Company acquired on July 18, 2013.

For the three month period ended June 30, 2014, Irish Life had revenue of $556 million and net earnings of $57 million (excludes $8 million of restructuring costs incurred by Irish Life). For the six month period ended June 30, 2014, Irish Life had revenue of $1,047 million and net earnings of $109 million (excludes $13 million of restructuring costs incurred by Irish Life). At June 30, 2014 Irish Life's total assets were $56.5 billion, including investments on account of segregated fund policyholders of $44.6 billion. Total liabilities for Irish Life were $54.4 billion, including $44.6 billion investment and insurance contracts on account of segregated fund policyholders. Beginning in the second quarter of 2014, the financial information above includes both Irish Life and Canada Life (Ireland) reflecting the integration of the businesses.

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 2014**	Mar. 31 2014	Dec. 31 2013	Sept. 30 2013	June 30 2013	Mar. 31 2013
United States dollar						
Balance sheet	**$1.07**	$1.11	$1.06	$1.03	$1.05	$1.02
Income and expenses	**$1.09**	$1.10	$1.05	$1.04	$1.02	$1.01
British pound						
Balance sheet	**$1.83**	$1.84	$1.76	$1.66	$1.60	$1.54
Income and expenses	**$1.84**	$1.83	$1.70	$1.61	$1.57	$1.56
Euro						
Balance sheet	**$1.46**	$1.52	$1.47	$1.39	$1.37	$1.30
Income and expenses	**$1.50**	$1.51	$1.43	$1.38	$1.34	$1.33

Mutual Funds Deposits and ASO Premium Equivalents (ASO Contracts)

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of mutual funds or the claims payments related to ASO group health contracts. However, the Company does earn fee and other income related to these contracts. Mutual funds and ASO contracts are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

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 2014	March 31 2014	June 30 2013 (note 2)	**June 30 2014**	June 30 2013 (note 2)
Income					
Premium income					
Gross premiums written	**$ 6,646**	$ 6,111	$ 5,377	**$ 12,757**	$ 11,047
Ceded premiums	**(882)**	(844)	(781)	**(1,726)**	(1,520)
Total net premiums	**5,764**	5,267	4,596	**11,031**	9,527
Net investment income (note 4)					
Regular net investment income	**1,526**	1,489	1,401	**3,015**	2,763
Changes in fair value through profit or loss	**1,670**	2,122	(3,200)	**3,792**	(2,735)
Total net investment income	**3,196**	3,611	(1,799)	**6,807**	28
Fee and other income	**1,110**	1,059	831	**2,169**	1,629
	10,070	9,937	3,628	**20,007**	11,184
Benefits and expenses					
Policyholder benefits					
Insurance and investment contracts					
Gross	**4,592**	4,801	4,215	**9,393**	9,242
Ceded	**(476)**	(475)	(362)	**(951)**	(736)
Total net policyholder benefits	**4,116**	4,326	3,853	**8,442**	8,506
Policyholder dividends and experience refunds	**358**	388	366	**746**	741
Changes in insurance and investment contract liabilities	**3,106**	2,775	(2,640)	**5,881**	(2,108)
Total paid or credited to policyholders	**7,580**	7,489	1,579	**15,069**	7,139
Commissions	**546**	505	443	**1,051**	875
Operating and administrative expenses	**915**	933	720	**1,848**	1,416
Premium taxes	**83**	85	72	**168**	146
Financing charges (note 9)	**76**	76	74	**152**	141
Amortization of finite life intangible assets	**32**	33	29	**65**	56
Restructuring and acquisition expenses (note 10)	**10**	5	10	**15**	14
Earnings before income taxes	**828**	811	701	**1,639**	1,397
Income taxes (note 16)	**156**	173	128	**329**	256
Net earnings before non-controlling interests	**672**	638	573	**1,310**	1,141
Attributable to non-controlling interests	**28**	22	20	**50**	38
Net earnings	**644**	616	553	**1,260**	1,103
Preferred share dividends	**29**	29	32	**58**	65
Net earnings - common shareholders	**$ 615**	$ 587	$ 521	**$ 1,202**	$ 1,038
Earnings per common share (note 15)					
Basic	**$ 0.616**	$ 0.587	$ 0.548	**$ 1.203**	$ 1.092
Diluted	**$ 0.615**	$ 0.587	$ 0.547	**$ 1.202**	$ 1.091

GREAT-WEST LIFECO INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(unaudited)*

(in Canadian $ millions)

	For the three months ended			For the six months ended	
	June 30 2014	March 31 2014	June 30 2013	**June 30 2014**	June 30 2013
Net earnings	**$ 644**	$ 616	$ 553	**$ 1,260**	$ 1,103
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	**(341)**	528	326	**187**	299
Unrealized foreign exchange gain (loss) on euro debt designated as hedge of the net assets of foreign operations	**30**	(25)	-	**5**	-
Unrealized gains (losses) on available-for-sale assets	**57**	95	(151)	**152**	(119)
Income tax (expense) benefit	**(13)**	(21)	34	**(34)**	29
Realized gains on available-for-sale assets	**(11)**	(11)	(18)	**(22)**	(53)
Income tax expense	**4**	3	6	**7**	11
Unrealized gains (losses) on cash flow hedges	**66**	(59)	(18)	**7**	(82)
Income tax (expense) benefit	**(25)**	22	18	**(3)**	32
Realized losses on cash flow hedges	**1**	-	1	**1**	1
Non-controlling interests	**(18)**	(28)	63	**(46)**	55
Income tax (expense) benefit	**5**	7	(17)	**12**	(15)
Total items that may be reclassified	**(245)**	511	244	**266**	158
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)	**(119)**	(120)	176	**(239)**	274
Income tax (expense) benefit	**28**	29	(53)	**57**	(79)
Non-controlling interests	**8**	9	(20)	**17**	(23)
Income tax (expense) benefit	**(2)**	(2)	5	**(4)**	5
Total items that will not be reclassified	**(85)**	(84)	108	**(169)**	177
Total other comprehensive income (loss)	**(330)**	427	352	**97**	335
Comprehensive income	**$ 314**	$ 1,043	$ 905	**$ 1,357**	$ 1,438

GREAT-WEST LIFECO INC.

CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in Canadian $ millions)

	June 30 2014	December 31 2013
Assets		
Cash and cash equivalents	**$ 3,109**	$ 2,791
Bonds (note 4)	**95,959**	89,914
Mortgage loans (note 4)	**20,077**	19,063
Stocks (note 4)	**8,118**	8,554
Investment properties (note 4)	**4,503**	4,288
Loans to policyholders	**7,428**	7,332
	139,194	131,942
Funds held by ceding insurers	**11,906**	10,832
Goodwill	**5,810**	5,812
Intangible assets	**3,468**	3,456
Derivative financial instruments	**683**	593
Owner occupied properties	**594**	590
Fixed assets	**206**	211
Reinsurance assets (note 8)	**5,309**	5,070
Premiums in course of collection, accounts and interest receivable	**3,250**	3,068
Other assets	**2,229**	2,220
Current income taxes	**205**	165
Deferred tax assets	**1,144**	1,167
Investments on account of segregated fund policyholders (note 7)	**170,382**	160,779
Total assets	**$ 344,380**	$ 325,905
Liabilities		
Insurance contract liabilities (note 8)	**$ 138,965**	$ 131,174
Investment contract liabilities (note 8)	**870**	889
Debentures and other debt instruments	**5,608**	5,740
Funds held under reinsurance contracts	**303**	270
Derivative financial instruments	**696**	744
Accounts payable	**1,450**	1,583
Other liabilities	**3,181**	2,807
Current income taxes	**776**	981
Deferred tax liabilities	**865**	776
Capital trust debentures	**162**	163
Investment and insurance contracts on account of segregated fund policyholders (note 7)	**170,382**	160,779
Total liabilities	**323,258**	305,906
Equity		
Non-controlling interests		
Participating account surplus in subsidiaries	**2,423**	2,354
Non-controlling interests in subsidiaries	**165**	8
Shareholders' equity		
Share capital (note 11)		
Preferred shares	**2,514**	2,314
Common shares	**7,115**	7,112
Accumulated surplus	**8,634**	8,067
Accumulated other comprehensive income	**184**	87
Contributed surplus	**87**	57
Total equity	**21,122**	19,999
Total liabilities and equity	**$ 344,380**	$ 325,905

GREAT-WEST LIFECO INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(unaudited)*

(in Canadian $ millions)

June 30, 2014

	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income	Non-controlling interests	Total equity
Balance, beginning of year	**$ 9,426**	**$ 57**	**$ 8,067**	**$ 87**	**$ 2,362**	**$ 19,999**
Net earnings	**-**	**-**	**1,260**	**-**	**50**	**1,310**
Other comprehensive income	**-**	**-**	**-**	**97**	**21**	**118**
	9,426	**57**	**9,327**	**184**	**2,433**	**21,427**
Dividends to shareholders						
Preferred shareholders	**-**	**-**	**(58)**	**-**	**-**	**(58)**
Common shareholders (note 15)	**-**	**-**	**(614)**	**-**	**-**	**(614)**
Shares exercised and issued under stock option plan (note 11)	**8**	**(1)**	**-**	**-**	**-**	**7**
Modification to share-based plans (note 2)	**-**	**26**	**-**	**-**	**217**	**243**
Equity settlement of Putnam share-based plans	**-**	**-**	**-**	**-**	**(62)**	**(62)**
Shares purchased and cancelled under Normal Course Issuer Bid (note 11)	**(22)**	**-**	**-**	**-**	**-**	**(22)**
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 11)	**17**	**-**	**(17)**	**-**	**-**	**-**
Issuance of preferred shares (note 11)	**200**	**-**	**-**	**-**	**-**	**200**
Share issue costs (note 11)	**-**	**-**	**(4)**	**-**	**-**	**(4)**
Share-based payments	**-**	**5**	**-**	**-**	**-**	**5**
Balance, end of period	**$ 9,629**	**$ 87**	**$ 8,634**	**$ 184**	**$ 2,588**	**$ 21,122**

December 31, 2013

	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	$ 8,392	$ 60	$ 7,035	$ (932)	$ 2,456	$ 17,011
Net earnings	-	-	2,408	-	(90)	2,318
Other comprehensive income (loss)	-	-	-	1,019	(4)	1,015
	8,392	60	9,443	87	2,362	20,344
Dividends to shareholders						
Preferred shareholders	-	-	(130)	-	-	(130)
Common shareholders	-	-	(1,200)	-	-	(1,200)
Exchange of subscription receipts on acquisition of Irish Life	1,220	-	-	-	-	1,220
Shares exercised and issued under stock option plan (note 11)	57	(11)	-	-	-	46
Shares purchased and cancelled under Normal Course Issuer Bid (note 11)	(59)	-	-	-	-	(59)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 11)	46	-	(46)	-	-	-
Redemption of preferred shares	(230)	-	-	-	-	(230)
Share-based payments	-	8	-	-	-	8
Balance, end of year	$ 9,426	$ 57	$ 8,067	$ 87	$ 2,362	$ 19,999

June 30, 2013

	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	$ 8,392	$ 60	$ 7,035	$ (932)	$ 2,456	$ 17,011
Net earnings	-	-	1,103	-	38	1,141
Other comprehensive income (loss)	-	-	-	335	(22)	313
	8,392	60	8,138	(597)	2,472	18,465
Dividends to shareholders						
Preferred shareholders	-	-	(65)	-	-	(65)
Common shareholders (note 15)	-	-	(585)	-	-	(585)
Shares exercised and issued under stock option plan	30	(6)	-	-	-	24
Share-based payments	-	4	-	-	-	4
Balance, end of period	$ 8,422	$ 58	$ 7,488	$ (597)	$ 2,472	$ 17,843

GREAT-WEST LIFECO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

(in Canadian $ millions)

	For the six months ended June 30	
	2014	2013 (note 2)
Operations		
Earnings before income taxes	**$ 1,639**	$ 1,397
Income taxes paid, net of refunds received	**(410)**	(127)
Adjustments:		
Change in insurance and investment contract liabilities	**5,389**	(1,907)
Change in funds held by ceding insurers	**247**	408
Change in funds held under reinsurance contracts	**17**	20
Change in deferred acquisition costs	**30**	30
Change in reinsurance assets	**(245)**	(98)
Changes in fair value through profit or loss	**(3,792)**	2,735
Other	**(221)**	(346)
	2,654	2,112
Financing Activities		
Issue of common shares (note 11)	**8**	30
Issue of preferred shares (note 11)	**200**	-
Share issue costs (note 11)	**(4)**	-
Issue of subscription receipts	**-**	1,237
Purchased and cancelled common shares (note 11)	**(22)**	-
Issue of euro-denominated debt (note 3)	**-**	659
Increase (decrease) in line of credit of subsidiary	**(142)**	136
Decrease in debentures and other debt instruments	**-**	(5)
Dividends paid on common shares	**(614)**	(585)
Dividends paid on preferred shares	**(58)**	(65)
	(632)	1,407
Investment Activities		
Bond sales and maturities	**15,293**	14,657
Mortgage loan repayments	**975**	806
Stock sales	**1,943**	952
Investment property sales	**98**	19
Change in loans to policyholders	**(50)**	75
Investment in bonds	**(17,231)**	(16,900)
Investment in mortgage loans	**(1,820)**	(1,241)
Investment in stocks	**(836)**	(1,003)
Investment in investment properties	**(105)**	(50)
	(1,733)	(2,685)
Effect of changes in exchange rates on cash and cash equivalents	**29**	59
Increase in cash and cash equivalents	**318**	893
Cash and cash equivalents, beginning of period	**2,791**	1,895
Cash and cash equivalents, end of period	**$ 3,109**	$ 2,788
Supplementary cash flow information		
Interest income received	**$ 2,465**	$ 2,234
Interest paid	**$ 158**	$ 133
Dividend income received	**$ 127**	$ 112

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 Financial Corporation (Power Financial) group of companies and its direct parent is 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, Europe and Asia through its major operating subsidiaries The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (Great-West Financial) and Putnam Investments, LLC (Putnam).

The condensed consolidated interim unaudited financial statements (financial statements) of the Company as at and for the three months and six months ended June 30, 2014 were approved by the Board of Directors on August 6, 2014.

2. Basis of Presentation and Summary of Accounting Policies

These financial statements should be read in conjunction with the Company's December 31, 2013 consolidated annual audited financial statements and notes thereto. Certain June 30, 2013 comparative figures in these financial statements have been reclassified for presentation adjustments as disclosed in note 36 to the Company's December 31, 2013 consolidated annual financial statements. For the three months ended June 30, 2013 this resulted in increases to gross premiums written of $264 and fee and other income of $20, offset by increases in operating and administrative expenses of $26 and paid or credited to policyholders of $258. For the six months ended June 30, 2013 this resulted in increases to gross premiums written of $615 and fee and other income of $40, offset by increases in operating and administrative expenses of $52 and paid or credited to policyholders of $603. These presentation adjustments also resulted in a decrease in the investment in bonds in the Consolidated Statements of Cash Flows of $1,970 for the period ended June 30, 2013. These adjustments did not have an impact on the net earnings or equity of the Company.

The financial statements of Lifeco at June 30, 2014 have been prepared in compliance with the requirements of International Accounting Standard (IAS) 34, *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB) using the same accounting policies and methods of computation followed in the consolidated financial statements for the year ended December 31, 2013 except as described below.

During the first quarter of 2014, the Company modified certain Putnam share-based compensation plans. As a result, these plans are now classified as equity-settled share-based payment transactions wherein compensation expense is measured by reference to the fair value of the equity investments at grant date with a corresponding increase to equity. During the first quarter of 2014, the Company re-classified the share-based liability into equity.

In addition, the Company adopted the guidance in the following standards effective January 1, 2014: IAS 32, *Financial Instruments: Presentation*, IAS 36, *Impairment of Assets*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRIC 21, *Levies*. The adoption of these standards did not have a significant impact on the Company's financial statements.

Future Accounting Policies
IFRS that have been issued by the IASB and could impact the Company are as follows:

New Standard	**Summary of Future Changes**
IFRS 9 - *Financial Instruments*	In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments* to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard provides changes to financial instruments accounting for the following: • classification and measurement of financial instruments based on a business model approach for managing financial assets and the contractual cash flow characteristics of the financial asset; • impairment based on an expected loss model; and • hedge accounting that incorporates the risk management practices of an entity. The standard is effective January 1, 2018. The Company is evaluating the impact this standard will have on its financial statements.
IFRS 15 - *Revenue from Contracts with Customers*	In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* which provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. The revenue arising from insurance contracts, leases and financial instruments are not required to apply the revenue recognition requirements in IFRS 15. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer. The standard is effective January 1, 2017. The Company is evaluating the impact of the adoption of this standard.

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 variability is inherent in these judgments and estimates, management believes that the amounts recorded are reasonable. Areas where significant estimates and assumptions have been used by management are further described in the relevant accounting policies as described in the Company's December 31, 2013 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 estimation of insurance and investment contract liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available.

3. Acquisitions

(a) Irish Life Group Limited

On July 18, 2013, the Company, through its wholly-owned subsidiary Canada Life Limited, completed the acquisition of all of the shares of Irish Life Group Limited (Irish Life). The Company disclosed the allocation of the purchase price to the amounts of assets acquired, goodwill and liabilities assumed in note 4 to the December 31, 2013 consolidated annual audited financial statements.

3. Acquisitions (cont'd)

During the three months ended June 30, 2014, experience studies on certain insurance contract liabilities assumed on acquisition were completed. There were no changes to the amounts reported in the Company's December 31, 2013 consolidated annual audited financial statements.

The Company incurred restructuring and acquisition expenses (note 10) related to Irish Life of $10 during the three months ended June 30, 2014 ($10 during the three months ended June 30, 2013) and $15 during the six months ended June 30, 2014 ($14 during the six months ended June 30, 2013).

(b) JP Morgan Retirement Plan Services

On April 3, 2014, the Company announced that its subsidiary Great-West Financial reached an agreement to acquire the J.P. Morgan Retirement Plan Services large-market recordkeeping business. Subject to regulatory approval in the United States, the transaction is scheduled to close in the third quarter of 2014. This transaction will not have an immediate material financial impact.

4. Portfolio Investments

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

	June 30, 2014		December 31, 2013	
	Carrying value	**Fair value**	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss [1]	**$ 70,366**	**$ 70,366**	$ 68,091	$ 68,091
Classified fair value through profit or loss [1]	**2,073**	**2,073**	2,053	2,053
Available-for-sale	**11,389**	**11,389**	7,915	7,915
Loans and receivables	**12,131**	**13,405**	11,855	12,672
	95,959	**97,233**	89,914	90,731
Mortgage loans				
Residential	**6,915**	**7,215**	6,570	6,716
Non-residential	**13,162**	**13,863**	12,493	12,801
	20,077	**21,078**	19,063	19,517
Stocks				
Designated fair value through profit or loss [1]	**6,849**	**6,849**	7,232	7,232
Available-for-sale	**702**	**702**	745	745
Other	**567**	**684**	577	743
	8,118	**8,235**	8,554	8,720
Investment properties	**4,503**	**4,503**	4,288	4,288
Total	**$ 128,657**	**$ 131,049**	$ 121,819	$ 123,256

[1] Investments can be classified as fair value through profit or loss in either of two ways: designated as fair value through profit or loss at the option of management; or, classified as fair value through profit or loss if they are actively traded for the purpose of earning investment income.

4. Portfolio Investments (cont'd)

(b) Included in portfolio investments are the following:

Carrying amount of impaired investments

	June 30 2014	December 31 2013
Impaired amounts by classification		
Fair value through profit or loss	**$ 349**	$ 384
Available-for-sale	**20**	19
Loans and receivables	**28**	34
Total	**$ 397**	$ 437

The above carrying values for loans and receivables are net of allowances of $18 at June 30, 2014 and $25 at December 31, 2013.

(c) Net investment income comprises the following:

For the three months ended June 30, 2014	**Bonds**	**Mortgage loans**	**Stocks**	**Investment properties**	**Other**	**Total**
Regular net investment income:						
Investment income earned	**$ 1,037**	**$ 238**	**$ 63**	**$ 80**	**$ 130**	**$ 1,548**
Net realized gains						
Available-for-sale	**4**	**-**	**9**	**-**	**-**	**13**
Other classifications	**3**	**2**	**-**	**-**	**-**	**5**
Net allowances for credit losses on loans and receivables	**-**	**1**	**-**	**-**	**-**	**1**
Other income and expenses	**-**	**-**	**-**	**(17)**	**(24)**	**(41)**
	1,044	**241**	**72**	**63**	**106**	**1,526**
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains						
Classified fair value through profit or loss	**18**	**-**	**-**	**-**	**-**	**18**
Designated fair value through profit or loss	**1,231**	**-**	**292**	**47**	**82**	**1,652**
	1,249	**-**	**292**	**47**	**82**	**1,670**
Total	**$ 2,293**	**$ 241**	**$ 364**	**$ 110**	**$ 188**	**$ 3,196**

4. Portfolio Investments (cont'd)

For the three months ended June 30, 2013	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	$ 939	$ 220	$ 58	$ 65	$ 123	$ 1,405
Net realized gains						
Available-for-sale	18	-	-	-	-	18
Other classifications	3	9	-	-	-	12
Net allowances for credit losses for loans and receivables	-	(1)	-	-	-	(1)
Other income and expenses	-	-	-	(16)	(17)	(33)
	960	228	58	49	106	1,401
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains (losses)						
Classified fair value through profit or loss	(56)	-	-	-	-	(56)
Designated fair value through profit or loss	(2,985)	-	(111)	24	(72)	(3,144)
	(3,041)	-	(111)	24	(72)	(3,200)
Total	$ (2,081)	$ 228	$ (53)	$ 73	$ 34	$ (1,799)

For the six months ended June 30, 2014	**Bonds**	**Mortgage loans**	**Stocks**	**Investment properties**	**Other**	**Total**
Regular net investment income:						
Investment income earned	**$ 2,044**	**$ 472**	**$ 134**	**$ 157**	**$ 247**	**$ 3,054**
Net realized gains						
Available-for-sale	**16**	-	**8**	-	-	**24**
Other classifications	**12**	**4**	-	-	-	**16**
Other income and expenses	-	-	-	**(33)**	**(46)**	**(79)**
	2,072	**476**	**142**	**124**	**201**	**3,015**
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains						
Classified fair value through profit or loss	**50**	-	-	-	-	**50**
Designated fair value through profit or loss	**2,943**	-	**502**	**137**	**160**	**3,742**
	2,993	-	**502**	**137**	**160**	**3,792**
Total	**$ 5,065**	**$ 476**	**$ 644**	**$ 261**	**$ 361**	**$ 6,807**

4. Portfolio Investments (cont'd)

For the six months ended June 30, 2013	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	$ 1,859	$ 439	$ 120	$ 129	$ 209	$ 2,756
Net realized gains						
Available-for-sale	53	-	-	-	-	53
Other classifications	9	15	-	-	-	24
Net allowances for credit losses for loans and receivables	-	(2)	-	-	-	(2)
Other income and expenses	-	-	-	(31)	(37)	(68)
	1,921	452	120	98	172	2,763
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains (losses)						
Classified fair value through profit or loss	(53)	-	-	-	-	(53)
Designated fair value through profit or loss	(2,757)	-	125	33	(83)	(2,682)
	(2,810)	-	125	33	(83)	(2,735)
Total	$ (889)	$ 452	$ 245	$ 131	$ 89	$ 28

Investment income earned comprises income from investments that are classified as available-for-sale, loans and receivables and 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 and equity income from the investment in IGM Financial Inc. and Allianz Ireland. 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.

5. Financial Instruments Risk Management

The Company has policies relating to the identification, measurement, monitoring, mitigating, and controlling 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 Lifeco's 2013 Annual Report. Certain risks have been outlined below. For a complete discussion of the Company's risk governance structure and risk management approach, see the "Financial Instruments Risk Management" note in the consolidated audited financial statements and notes thereto in the Company's December 31, 2013 Annual Report.

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.

<u>Concentration of Credit Risk</u>
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, 2013.

(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 monitors the use of lines of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.
- 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) Financial 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.

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

- Assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered,

- Changes in actuarial, investment return and future investment activity assumptions,
- Actual experience differing from the assumptions,
- Changes in business mix, effective income tax rates and other market factors,
- Interactions among these factors and assumptions when more than one changes, and
- The general limitations of the Company's internal models.

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

(i) Currency Risk

Currency risk relates to the Company operating and holding financial instruments in different currencies. For the assets backing insurance and investment contract liabilities that are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The Company has net investments in foreign operations. In addition, the Company’s debt obligations are mainly denominated in Canadian dollars. In accordance with International Financial Reporting Standards, 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 share capital and surplus. Correspondingly, the Company’s book value per share and capital ratios monitored by rating agencies are also impacted.

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

(ii) Interest Rate Risk

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

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

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

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

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

- The effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios would not change the total provision for interest rates.
- The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios would be to increase these insurance and investment contract liabilities by approximately $84 causing a decrease in net earnings of approximately $62.

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 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 effect of an immediate 1% increase in the low and high end of the range of interest rates recognized in the provisions would be to decrease these insurance and investment contract liabilities by approximately $19 causing an increase in net earnings of approximately $1.
- The effect of an immediate 1% decrease in the low and high end of the range of interest rates recognized in the provisions would be to increase these insurance and investment contract liabilities by approximately $519 causing a decrease in net earnings of approximately $348.

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate price 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 market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately $44 causing an increase in net earnings of approximately $35. A 10% decrease in equity markets would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $100 causing a decrease in net earnings of approximately $78.

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. A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately $474 causing an increase in net earnings of approximately $366. A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $520 causing a decrease in net earnings of approximately $397.

6. Fair Value Measurement

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

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

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

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

6. Fair Value Measurement (cont'd)

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

	June 30, 2014			
Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	**$ 3,109**	**$ -**	**$ -**	**$ 3,109**
Financial assets at fair value through profit or loss				
Bonds	**-**	**72,139**	**300**	**72,439**
Stocks	**6,823**	**6**	**20**	**6,849**
Total financial assets at fair value through profit or loss	**6,823**	**72,145**	**320**	**79,288**
Available-for-sale financial assets				
Bonds	**-**	**11,370**	**19**	**11,389**
Stocks	**84**	**-**	**1**	**85**
Total available-for-sale financial assets	**84**	**11,370**	**20**	**11,474**
Investment properties	**-**	**-**	**4,503**	**4,503**
Derivatives [1]	**1**	**682**	**-**	**683**
Other assets:				
Trading account assets in Putnam	**155**	**141**	**-**	**296**
Other trading assets	**74**	**-**	**-**	**74**
Other [2]	**35**	**-**	**-**	**35**
Total assets measured at fair value	**$ 10,281**	**$ 84,338**	**$ 4,843**	**$ 99,462**
Liabilities measured at fair value				
Derivatives [3]	**$ 1**	**$ 695**	**$ -**	**$ 696**
Investment contract liabilities	**-**	**841**	**29**	**870**
Other liabilities - other	**35**	**-**	**-**	**35**
Total liabilities measured at fair value	**$ 36**	**$ 1,536**	**$ 29**	**$ 1,601**

[1] Excludes collateral received of $49.
[2] Includes cash collateral under securities lending agreements.
[3] Excludes collateral pledged of $200.

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

6. Fair Value Measurement (cont'd)

Assets measured at fair value	December 31, 2013 Level 1	Level 2	Level 3	Total
Cash	$ 2,791	$ -	$ -	$ 2,791
Financial assets at fair value through profit or loss				
Bonds	-	69,811	333	70,144
Stocks	7,202	6	24	7,232
Total financial assets at fair value through profit or loss	7,202	69,817	357	77,376
Available-for-sale financial assets				
Bonds	-	7,891	24	7,915
Stocks	112	-	1	113
Total available-for-sale financial assets	112	7,891	25	8,028
Investment properties	-	-	4,288	4,288
Derivatives [(1)]	-	593	-	593
Other assets:				
Trading account assets in Putnam	154	131	21	306
Other trading assets	70	-	-	70
Other [(2)]	20	-	-	20
Total assets measured at fair value	$ 10,349	$ 78,432	$ 4,691	$ 93,472
Liabilities measured at fair value				
Derivatives [(3)]	$ 6	$ 738	$ -	$ 744
Investment contract liabilities	-	859	30	889
Other liabilities - other	20	-	-	20
Total liabilities measured at fair value	$ 26	$ 1,597	$ 30	$ 1,653

(1) Excludes collateral received of $19.
(2) Includes cash collateral under securities lending agreements.
(3) Excludes collateral pledged of $206.

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

6. Fair Value Measurement (cont'd)

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

	June 30, 2014							
	Fair value through profit or loss bonds	Available-for-sale bonds	Fair value through profit or loss stocks [3]	Available-for-sale stocks	Investment properties	Other assets - trading account [4]	Total Level 3 assets	Investment contract liabilities
Balance, beginning of year	**$ 333**	**$ 24**	**$ 24**	**$ 1**	**$ 4,288**	**$ 21**	**$ 4,691**	**$ 30**
Total gains								
Included in net earnings	**17**	**-**	**-**	**-**	**137**	**-**	**154**	**-**
Included in other comprehensive income [1]	**-**	**(1)**	**-**	**-**	**99**	**-**	**98**	**-**
Purchases	**-**	**-**	**-**	**-**	**86**	**-**	**86**	**-**
Sales	**-**	**-**	**(3)**	**-**	**(99)**	**(21)**	**(123)**	**-**
Repayments	**(50)**	**(4)**	**-**	**-**	**-**	**-**	**(54)**	**-**
Other	**-**	**-**	**-**	**-**	**(8)**	**-**	**(8)**	**(1)**
Transfers into Level 3 [2]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers out of Level 3 [2]	**-**	**-**	**(1)**	**-**	**-**	**-**	**(1)**	**-**
Balance, end of period	**$ 300**	**$ 19**	**$ 20**	**$ 1**	**$ 4,503**	**$ -**	**$ 4,843**	**$ 29**
Total gains for the period included in net investment income	**$ 17**	**$ -**	**$ -**	**$ -**	**$ 137**	**$ -**	**$ 154**	**$ -**
Change in unrealized gains for the period included in net earnings for assets held at June 30, 2014	**$ 17**	**$ -**	**$ -**	**$ -**	**$ 137**	**$ -**	**$ 154**	**$ -**

[1] Amount of other comprehensive income for investment properties represents the unrealized gain on foreign exchange.

[2] 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 or the lifting of redemption restrictions on investments in mutual and segregated funds.

[3] Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

[4] Includes illiquid equities where prices are not quoted, however, the Company does not believe changing the inputs to reasonably alternate assumptions would change the values significantly.

6. Fair Value Measurement (cont'd)

	December 31, 2013							
	Fair value through profit or loss bonds	Available-for-sale bonds	Fair value through profit or loss stocks [3]	Available-for-sale stocks	Investment properties	Other assets - trading account [4]	Total Level 3 assets	Investment contract liabilities
Balance, beginning of year	$ 273	$ 27	$ 12	$ 1	$ 3,572	$ 9	$ 3,894	$ 33
Total gains								
Included in net earnings	68	4	-	-	152	12	236	-
Included in other comprehensive income [1]	-	3	-	-	216	-	219	-
Acquisition of Irish Life	120	-	1	-	248	-	369	-
Purchases	-	-	20	-	182	-	202	-
Sales	(104)	(5)	(10)	-	(82)	-	(201)	-
Repayments	(68)	(5)	-	-	-	-	(73)	-
Other	-	-	-	-	-	-	-	(3)
Transfers into Level 3 [2]	50	-	1	-	-	-	51	-
Transfers out of Level 3 [2]	(6)	-	-	-	-	-	(6)	-
Balance, end of year	$ 333	$ 24	$ 24	$ 1	$ 4,288	$ 21	$ 4,691	$ 30
Total gains for the year included in net investment income	$ 68	$ 4	$ -	$ -	$ 152	$ 12	$ 236	$ -
Change in unrealized gains for the year included in net earnings for assets held at December 31, 2013	$ 75	$ -	$ -	$ -	$ 152	$ 12	$ 239	$ -

(1) Amount of other comprehensive income for investment properties represents the unrealized gain on foreign exchange.

(2) 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 or the lifting of redemption restrictions on investments in mutual and segregated funds.

(3) Includes investments in mutual and segregated funds where there are redemption restrictions. The fair value is based on observable, quoted prices.

(4) Includes illiquid equities where prices are not quoted, however, the Company does not believe changing the inputs to reasonably alternate assumptions would change the values significantly.

6. Fair Value Measurement (cont'd)

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

Type of asset	Valuation approach	Significant unobservable input	Input value	Inter-relationship between key unobservable inputs and fair value measurement
Asset-backed securities (included with bonds)	Discounted cash flow	Prepayment speed assumption (estimated % of collateral that prepays annually)	8.5% (weighted average)	The Company does not believe that changing one or more of the inputs to reasonably alternate assumptions would change their fair values significantly.
		Constant default rate assumption (estimated % of defaults in the collateral pool annually)	5.0% (weighted average)	
		Adjusted Asset-backed Securities Index (ABX index) spread assumption (adjusted for internally calculated liquidity premium)	493 bps (weighted average)	
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 3.6% - 11.0%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 5.3% - 8.3%	A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value.
		Vacancy rate	Weighted average of 3.0%	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.

7. Segregated Funds and Other Structured Entities

The Company offers segregated fund products in Canada, the U.S. and Europe that are referred to as segregated funds, separate accounts and unit-linked funds in the respective region. These funds are contracts issued by insurers to segregated fund policyholders where the benefit is directly linked to the performance of the investments, the risks or rewards of the fair value movements and net investment income is realized by the segregated fund policyholders. The segregated fund policyholders are required to select the segregated funds that hold a range of underlying investments. While the Company has legal title to the investments, there is a contractual obligation to pass along the investments results to the segregated fund policyholder and the Company segregates these investments from those of the Company.

7. Segregated Funds and Other Structured Entities (cont'd)

In Canada and the U.S., the segregated fund and separate account assets are legally separated from the general assets of the Company under the terms of the policyholder agreement and cannot be used to settle obligations of the Company. In Europe, the assets of the funds are functionally and constructively segregated from those of the Company. As a result of the legal and constructive arrangements of these funds, the assets and liabilities of these funds are presented as line items within the Consolidated Balance Sheets titled investments on account of segregated fund policyholders and with an equal liability titled investment and insurance contracts on account of segregated fund policyholders.

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, the Company has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are $782 at June 30, 2014 ($772 at December 31, 2013).

Within the Consolidated Statements of Earnings, all segregated fund policyholders' income, including fair value changes and net investment income, is credited to the segregated fund policyholders and reflected in the assets and liabilities on account of segregated fund policyholders within the Consolidated Balance Sheets. As these amounts do not directly impact the revenues and expenses of the Company, these amounts are not included separately in the Consolidated Statements of Earnings.

<u>Segregated Funds Guarantee Exposure</u>

The Company offers retail segregated fund products, unitized with profits products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds. While these products are similar to mutual funds, there is a key difference from mutual funds as the segregated funds have certain guarantee features that protect the segregated fund policyholder from market declines in the underlying investments. These guarantees are the Company's primary exposure on these funds. The Company accounts for these guarantees within insurance and investment contract liabilities within the financial statements. In addition to the Company's exposure on the guarantees, the fees earned by the Company on these products are impacted by the market value of these funds.

In Canada, the Company offers retail segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits and guaranteed minimum accumulation on maturity benefits.

In the U.S., the Company offers variable annuities with guaranteed minimum death benefits through Great-West Financial. Most are a return of premium on death with the guarantee expiring at age 70.

In Europe, the Company offers unitized with profits products, which are similar to segregated fund products, but with pooling of policyholders' funds and minimum credited interest rates.

The Company also offers a guaranteed minimum withdrawal benefits product in Canada, the U.S. and Europe. The guaranteed minimum withdrawal benefits products offered by the Company offer levels of death and maturity guarantees. At June 30, 2014, the amount of guaranteed minimum withdrawal benefits product in-force in Canada, the U.S., Ireland and Germany was $2,835 ($2,674 at December 31, 2013).

7. Segregated Funds and Other Structured Entities (cont'd)

The Company's exposure to these guarantees is set out as follows:

	June 30, 2014				
		Investment deficiency by benefit type			
	Market value	**Income**	**Maturity**	**Death**	**Total***
Canada	**$ 28,647**	**$ -**	**$ 19**	**$ 57**	**$ 57**
United States	**9,152**	**-**	**-**	**40**	**40**
Europe	**9,158**	**294**	**10**	**53**	**347**
Total	**$ 46,957**	**$ 294**	**$ 29**	**$ 150**	**$ 444**

*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, 2014.

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, 2014. 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 was $3 in quarter and $5 year-to-date, with the majority arising in the Europe segment.

For further details on the Company's risk and guarantee exposure and the management of these risks, refer to the Risk Management and Control Practice section of the Company's December 31, 2013 Management's Discussion and Analysis.

The following presents further details of the investments on account of segregated fund policyholders:

(a) Investments on account of segregated fund policyholders

	June 30 2014	December 31 2013
Cash and cash equivalents	**$ 12,012**	$ 11,374
Bonds	**36,425**	34,405
Mortgage loans	**2,401**	2,427
Stocks and units in unit trusts	**67,295**	62,882
Mutual funds	**44,719**	41,555
Investment properties	**8,700**	8,284
	171,552	160,927
Accrued income	**423**	380
Other liabilities	**(2,375)**	(1,300)
Non-controlling mutual funds interest	**782**	772
Total	**$ 170,382**	$ 160,779

7. Segregated Funds and Other Structured Entities (cont'd)

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

	For the six months ended June 30	
	2014	2013
Balance, beginning of year	**$ 160,779**	$ 105,432
Additions (deductions):		
Policyholder deposits	**11,080**	7,105
Net investment income	**1,035**	300
Net realized capital gains on investments	**2,476**	1,378
Net unrealized capital gains on investments	**5,250**	1,840
Unrealized gains due to changes in foreign exchange rates	**774**	1,595
Policyholder withdrawals	**(10,674)**	(6,555)
Segregated fund investment in General Fund	**(382)**	-
Net transfer from General Fund	**35**	30
Non-controlling mutual funds interest	**10**	11
Other	**(1)**	-
Total	**9,603**	5,704
Balance, end of period	**$ 170,382**	$ 111,136

(c) Investment income on account of segregated fund policyholders

	For the six months ended June 30	
	2014	2013
Net investment income	**$ 1,035**	$ 300
Net realized capital gains on investments	**2,476**	1,378
Net unrealized capital gains on investments	**5,250**	1,840
Unrealized gains due to changes in foreign exchange rates	**774**	1,595
Total	**9,535**	5,113
Change in investment and insurance contracts liability on account of segregated fund policyholders	**9,535**	5,113
Net	**$ -**	$ -

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

	June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments on account of segregated fund policyholders [(1)]	**$ 112,580**	**$ 50,157**	**$ 9,760**	**$ 172,497**

[(1)] Excludes other liabilities, net of other assets, of $2,115.

7. Segregated Funds and Other Structured Entities (cont'd)

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders [(1)]	$ 106,144	$ 46,515	$ 9,298	$ 161,957

[(1)] Excludes other liabilities, net of other assets, of $1,178.

During the first six months of 2014 there have been no assets transferred between Level 1 and Level 2.

Level 2 assets include those assets where fair value is not available from normal market pricing sources and where the Company does not have visibility through to the underlying assets.

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

	June 30 2014	December 31 2013
Balance, beginning of year	**$ 9,298**	$ 6,287
Total gains included in segregated fund investment income	**398**	694
Acquisition of Irish Life	**-**	2,326
Purchases	**213**	428
Sales	**(146)**	(440)
Transfers into Level 3	**7**	4
Transfers out of Level 3	**(10)**	(1)
Balance, end of period	**$ 9,760**	$ 9,298

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.

In addition to the segregated funds, the Company has interests in a number of structured unconsolidated entities including mutual funds, open ended investment companies, and unit-trusts. These entities are created as investment strategies for its unit-holders based on the directive of each individual fund.

Some of these funds are managed by related parties of the Company and the Company receives management fees related to these services. Management fees can be variable due to performance of factors – such as markets or industries – in which the fund invests. Fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management which is affected by prevailing market conditions, and the inflow and outflow of client assets.

Factors that could cause assets under management and fees to decrease include declines in equity markets, changes in fixed income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue.

8. Insurance and Investment Contract Liabilities

	June 30, 2014		
	Gross liability	**Reinsurance assets**	**Net**
Insurance contract liabilities	**$ 138,965**	**$ 5,309**	**$ 133,656**
Investment contract liabilities	**870**	**-**	**870**
Total	**$ 139,835**	**$ 5,309**	**$ 134,526**

	December 31, 2013		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	$ 131,174	$ 5,070	$ 126,104
Investment contract liabilities	889	-	889
Total	$ 132,063	$ 5,070	$ 126,993

9. Financing Charges

Financing charges consist of the following:

	For the three months ended June 30		For the six months ended June 30	
	2014	2013	**2014**	2013
Operating charges:				
Interest on operating lines and short-term debt instruments	**$ 2**	$ 2	**$ 3**	$ 3
Financial charges:				
Interest on long-term debentures and other debt instruments	**65**	64	**131**	122
Interest on capital trust debentures	**2**	2	**5**	5
Other	**7**	6	**13**	11
	74	72	**149**	138
Total	**$ 76**	$ 74	**$ 152**	$ 141

10. Restructuring and Acquisition Expenses

With the acquisition of Irish Life on July 18, 2013, the Company has developed a plan to restructure by combining the life and pension operations of Canada Life (Ireland) and Irish Life.

Restructuring and acquisition expenses by major heading were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2014	2013	**2014**	2013
Acquisition expenses	**$ -**	$ 10	**$ -**	$ 14
Restructuring - Irish Life				
Staff costs	**1**	-	**1**	-
Information systems	**6**	-	**10**	-
Other	**3**	-	**4**	-
Total	**$ 10**	$ 10	**$ 15**	$ 14

11. Share Capital

(a) Preferred Shares

On May 22, 2014 the Company issued 8,000,000 Series S, 5.25% Non-Cumulative First Preferred Shares at $25.00 per share. The shares are redeemable at the option of the Company on or after June 30, 2019 for $25.00 per share plus a premium if redeemed prior to June 30, 2023, together in each case with all declared and unpaid dividends up to but excluding the date of redemption. Transaction costs incurred in connection with the preferred share issue of $5 ($4 after-tax) were charged to accumulated surplus.

(b) Common Shares

	June 30, 2014		December 31, 2013	
	Number	**Carrying value**	Number	Carrying value
Common shares:				
Balance, beginning of year	**999,402,079**	**$ 7,112**	950,596,440	$ 5,848
Common Shares exchanged for subscription receipts on acquisition of Irish Life	**-**	**-**	48,660,000	1,220
Purchased and cancelled under Normal Course Issuer Bid	**(726,304)**	**(22)**	(1,885,381)	(59)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid	**-**	**17**	-	46
Exercised and issued under stock option plan	**260,802**	**8**	2,031,020	57
Balance, end of period	**998,936,577**	**$ 7,115**	999,402,079	$ 7,112

Normal Course Issuer Bid

On December 5, 2013, the Company announced a normal course issuer bid commencing December 9, 2013 and terminating December 8, 2014 to purchase for cancellation up to but not more than 6,000,000 of its common shares at market prices.

During the six months ended June 30, 2014, the Company repurchased and subsequently cancelled 726,304 common shares (nil during the six months ended June 30, 2013 under the previous normal course issuer bid) at a cost of $22. The Company's share capital was reduced by the average carrying value of the shares repurchased for cancellation. The excess paid over the average carrying value was $17 and was recognized as a reduction to equity.

12. Capital Management

(a) Policies and Objectives

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

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

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

The capital planning process is the responsibility of the Company's Chief Financial Officer. The capital plan is reviewed by the Executive Committee of the Board of Directors and 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.

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 Canada has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements. For this purpose, various additions or deductions from capital are mandated by the guidelines issued by the Office of the Superintendent of Financial Institutions Canada. The following provides a summary of the Minimum Continuing Capital and Surplus Requirements information and ratios for Great-West Life:

12. Capital Management (cont'd)

	June 30 2014	December 31 2013
Adjusted Net Tier 1 Capital	**$ 10,976**	$ 10,432
Net Tier 2 Capital	**2,373**	2,236
Total Capital Available	**$ 13,349**	$ 12,668
Total Capital Required	**$ 5,850**	$ 5,673
Tier 1 Ratio	**188%**	184%
Total Ratio	**228%**	223%

Other foreign operations and foreign subsidiaries of the Company are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2013 the Company maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

13. Share-Based Payments

Under the Company's stock option plan, 109,400 options were granted during the three months ended June 30, 2014 and 1,556,300 options were granted during the three months ended March 31, 2014 (1,832,100 options were granted during the six months ended June 30, 2013). The weighted average fair value of options granted was $5.75 per option during the six months ended June 30, 2014 ($4.33 for the six months ended June 30, 2013).

14. Pension Benefits and Other Post-Employment Benefits

The total pension and other post-employment benefit expenses 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	
	2014	2013	**2014**	2013
Pension plans				
Service costs	**$ 40**	$ 34	**$ 79**	$ 65
Net interest cost	**-**	6	**1**	13
	40	40	**80**	78
Other post-employment benefits				
Service costs	**1**	-	**1**	1
Net interest cost	**4**	5	**9**	9
	5	5	**10**	10
Pension and other post-employment benefit expense - Consolidated Statements of Earnings	**45**	45	**90**	88
Pension plans - re-measurements				
Actuarial (gain) loss recognized	**237**	(210)	**462**	(193)
Return on assets (greater) less than assumed	**(135)**	54	**(254)**	(60)
Administrative expenses less than assumed	**-**	-	**(1)**	-
Change in the asset ceiling	**-**	3	**(7)**	(2)
Pension plan re-measurement (income) loss	**102**	(153)	**200**	(255)
Other post-employment benefits - re-measurements				
Actuarial (gain) loss recognized	**9**	(23)	**27**	(19)
Pension and other post-employment benefits expense - other comprehensive (income) loss	**111**	(176)	**227**	(274)
Total pension and other post-employment benefits expense (recovery)	**$ 156**	$ (131)	**$ 317**	$ (186)

During the three and six months ended June 30, 2014, the Company incurred $8 and $12, respectively, of actuarial losses for pension plan re-measurements not included in the table above (nil for the three and six months ended June 30, 2013). This represents the Company's share of pension plan re-measurement losses for an investment in an associate accounted for under the equity method acquired with Irish Life.

During the first six months of 2014, the Company's pension plans reallocated certain investments which resulted in an additional $1,066 of plan assets invested into segregated funds of the Company (note 7).

14. Pension Benefits and Other Post-Employment Benefits (cont'd)

The following shows the weighted average pension benefits and other post-employment benefits discount rate used to re-measure the benefit obligation at the following dates:

	Weighted average discount rate	
June 30, 2014 (June 30, 2013)	**4.0 %**	(4.7 %)
March 31, 2014 (March 31, 2013)	**4.3 %**	(4.3 %)
December 31, 2013 (December 31, 2012)	**4.7 %**	(4.3 %)

15. Earnings per Common Share

The following provides the reconciliation between basic and diluted earnings per common share:

	For the three months ended June 30		For the six months ended June 30	
	2014	2013	**2014**	2013
Earnings				
Net earnings	**$ 644**	$ 553	**$ 1,260**	$ 1,103
Preferred share dividends	**(29)**	(32)	**(58)**	(65)
Net earnings - common shareholders	**$ 615**	$ 521	**$ 1,202**	$ 1,038
Number of common shares				
Average number of common shares outstanding	**999,058,528**	951,560,784	**999,136,645**	951,281,321
Add:				
- Potential exercise of outstanding stock options	**926,027**	583,701	**1,091,114**	492,923
Average number of common shares outstanding - diluted basis	**999,984,555**	952,144,485	**1,000,227,759**	951,774,244
Basic earnings per common share	**$ 0.616**	$ 0.548	**$ 1.203**	$ 1.092
Diluted earnings per common share	**$ 0.615**	$ 0.547	**$ 1.202**	$ 1.091
Dividends per common share	**$ 0.3075**	$ 0.3075	**$ 0.6150**	$ 0.6150

16. 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	
	2014	2013	**2014**	2013
Current income taxes	**$ 82**	$ 190	**$ 188**	$ 331
Deferred income taxes	**74**	(62)	**141**	(75)
Total income tax expense	**$ 156**	$ 128	**$ 329**	$ 256

(b) Effective Income Tax Rate

The overall effective income tax rate for Lifeco for the six months ended June 30, 2014 was 20% compared to 17% for the full year 2013 and 18% for the six months ended June 30, 2013. The effective income tax rates are generally lower than the Company's statutory income tax rate of 26.5% due to benefits related to non-taxable investment income and lower income tax in foreign jurisdictions.

The effective income tax rate for the six months ended June 30, 2014 is higher than the full year 2013 effective income tax rate as a result of non-deductible expenditures incurred in the first quarter of 2014. In addition, during the first quarter of 2014, newly enacted state income tax laws reduced the carrying values of certain deferred income tax assets in Putnam which further increased the Company's effective income tax rate for the quarter.

(c) Deferred Tax Assets

A deferred income tax asset is recognized for deductible temporary differences and unused losses and carryforwards only to the extent that realization of the related income tax benefit through future taxable profits is probable.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities will be available to allow the deferred income tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred income tax assets. The Company's annual financial planning process provides a significant basis for the measurement of deferred income tax assets.

The deferred income tax asset includes balances which are dependent on future taxable profits while the relevant entities have incurred losses in either the current year or the preceding year. The aggregate deferred income tax asset for the most significant entities where this applies is $1,314 at June 30, 2014 ($1,299 at December 31, 2013).

17. Legal Provisions and Contingent Liabilities (changes since December 31, 2013 Annual Report)

On May 1, 2014 a subsidiary of the Company, Putnam Advisory Company, LLC, reached a settlement with the Massachusetts Securities Division in relation to its administrative complaint. The resolution of this matter will not have a material adverse effect on the consolidated financial position of the Company. On April 28, 2014, the remaining civil litigation matter brought against Putnam Advisory Company, LLC, in relation to its role as manager of two collateral debt obligations was dismissed. On July 2, 2014, the complainant filed an appeal of the dismissal of the civil litigation matter.

18. Segmented Information

(a) Consolidated Net Earnings

For the three months ended June 30, 2014

	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Total net premiums	$ 2,776	$ 832	$ 2,156	$ -	$ 5,764
Net investment income					
Regular net investment income	643	352	529	2	1,526
Changes in fair value through profit or loss	780	302	588	-	1,670
Total net investment income	1,423	654	1,117	2	3,196
Fee and other income	356	436	318	-	1,110
	4,555	1,922	3,591	2	10,070
Benefits and expenses:					
Paid or credited to policyholders	3,367	1,295	2,918	-	7,580
Other*	728	478	332	6	1,544
Financing charges	29	35	12	-	76
Amortization of finite life intangible assets	13	14	5	-	32
Restructuring and acquisition expenses	-	-	10	-	10
Earnings (loss) before income taxes	418	100	314	(4)	828
Income taxes	90	25	42	(1)	156
Net earnings (loss) before non-controlling interests	328	75	272	(3)	672
Non-controlling interests	24	2	2	-	28
Net earnings (loss)	304	73	270	(3)	644
Preferred share dividends	24	-	5	-	29
Net earnings (loss) before capital allocation	280	73	265	(3)	615
Impact of capital allocation	24	(4)	(19)	(1)	-
Net earnings (loss) - common shareholders	$ 304	$ 69	$ 246	$ (4)	$ 615

*Includes commissions, operating and administrative expenses and premium taxes.

18. Segmented Information (cont'd)

For the three months ended June 30, 2013[1]

	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Total net premiums	$ 2,469	$ 700	$ 1,427	$ -	$ 4,596
Net investment income					
Regular net investment income	620	342	436	3	1,401
Changes in fair value through profit or loss	(1,276)	(501)	(1,423)	-	(3,200)
Total net investment income	(656)	(159)	(987)	3	(1,799)
Fee and other income	316	349	166	-	831
	2,129	890	606	3	3,628
Benefits and expenses:					
Paid or credited to policyholders	1,053	366	160	-	1,579
Other*	666	379	183	7	1,235
Financing charges	28	34	5	7	74
Amortization of finite life intangible assets	13	13	3	-	29
Restructuring and acquisition expenses	-	-	10	-	10
Earnings (loss) before income taxes	369	98	245	(11)	701
Income taxes	67	20	44	(3)	128
Net earnings (loss) before non-controlling interests	302	78	201	(8)	573
Non-controlling interests	19	1	-	-	20
Net earnings (loss)	283	77	201	(8)	553
Preferred share dividends	27	-	5	-	32
Net earnings (loss) before capital allocation	256	77	196	(8)	521
Impact of capital allocation	25	(4)	(18)	(3)	-
Net earnings (loss) - common shareholders	$ 281	$ 73	$ 178	$ (11)	$ 521

[1] Certain comparative figures have been reclassified for presentation adjustments (note 2).
* Includes commissions, operating and administrative expenses and premium taxes.

18. Segmented Information (cont'd)

For the six months ended June 30, 2014

	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Total net premiums	$ 5,389	$ 1,644	$ 3,998	$ -	$ 11,031
Net investment income					
Regular net investment income	1,281	709	1,027	(2)	3,015
Changes in fair value through profit or loss	1,727	625	1,440	-	3,792
Total net investment income	3,008	1,334	2,467	(2)	6,807
Fee and other income	700	855	614	-	2,169
	9,097	3,833	7,079	(2)	20,007
Benefits and expenses:					
Paid or credited to policyholders	6,732	2,593	5,744	-	15,069
Other*	1,443	972	642	10	3,067
Financing charges	58	70	24	-	152
Amortization of finite life intangible assets	26	29	10	-	65
Restructuring and acquisition expenses	-	-	15	-	15
Earnings (loss) before income taxes	838	169	644	(12)	1,639
Income taxes	195	48	89	(3)	329
Net earnings (loss) before non-controlling interests	643	121	555	(9)	1,310
Non-controlling interests	46	3	1	-	50
Net earnings (loss)	597	118	554	(9)	1,260
Preferred share dividends	47	-	11	-	58
Net earnings (loss) before capital allocation	550	118	543	(9)	1,202
Impact of capital allocation	48	(8)	(38)	(2)	-
Net earnings (loss) - common shareholders	$ 598	$ 110	$ 505	$ (11)	$ 1,202

*Includes commissions, operating and administrative expenses and premium taxes.

18. Segmented Information (cont'd)

For the six months ended June 30, 2013[1]

	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Total net premiums	$ 4,984	$ 1,329	$ 3,214	$ -	$ 9,527
Net investment income					
Regular net investment income	1,239	665	863	(4)	2,763
Changes in fair value through profit or loss	(1,220)	(507)	(1,008)	-	(2,735)
Total net investment income	19	158	(145)	(4)	28
Fee and other income	625	686	318	-	1,629
	5,628	2,173	3,387	(4)	11,184
Benefits and expenses:					
Paid or credited to policyholders	3,509	1,126	2,504	-	7,139
Other*	1,319	757	351	10	2,437
Financing charges	57	68	9	7	141
Amortization of finite life intangible assets	25	26	5	-	56
Restructuring and acquisition expenses	-	-	14	-	14
Earnings (loss) before income taxes	718	196	504	(21)	1,397
Income taxes	134	40	87	(5)	256
Net earnings (loss) before non-controlling interests	584	156	417	(16)	1,141
Non-controlling interests	34	4	-	-	38
Net earnings (loss)	550	152	417	(16)	1,103
Preferred share dividends	54	-	11	-	65
Net earnings (loss) before capital allocation	496	152	406	(16)	1,038
Impact of capital allocation	50	(8)	(36)	(6)	-
Net earnings (loss) - common shareholders	$ 546	$ 144	$ 370	$ (22)	$ 1,038

[1] Certain comparative figures have been reclassified for presentation adjustments (note 2).
* Includes commissions, operating and administrative expenses and premium taxes.

18. Segmented Information (cont'd)

(b) Consolidated Total Assets and Liabilities

	June 30, 2014			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	**$ 62,343**	**$ 32,699**	**$ 44,152**	**$ 139,194**
Goodwill and intangible assets	**5,107**	**1,839**	**2,332**	**9,278**
Other assets	**3,030**	**3,454**	**19,042**	**25,526**
Investments on account of segregated fund policyholders	**67,687**	**28,751**	**73,944**	**170,382**
Total	**$ 138,167**	**$ 66,743**	**$ 139,470**	**$ 344,380**

	June 30, 2014			
	Canada	**United States**	**Europe**	**Total**
Liabilities				
Insurance and investment contract liabilities	**$ 57,453**	**$ 29,746**	**$ 52,636**	**$ 139,835**
Other liabilities	**4,760**	**4,435**	**3,846**	**13,041**
Investment and insurance contracts on account of segregated fund policyholders	**67,687**	**28,751**	**73,944**	**170,382**
Total	**$ 129,900**	**$ 62,932**	**$ 130,426**	**$ 323,258**

	December 31, 2013			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 59,735	$ 31,206	$ 41,001	$ 131,942
Goodwill and intangible assets	5,103	1,828	2,337	9,268
Other assets	2,941	3,356	17,619	23,916
Investments on account of segregated fund policyholders	62,204	28,168	70,407	160,779
Total	$ 129,983	$ 64,558	$ 131,364	$ 325,905

	December 31, 2013			
	Canada	United States	Europe	Total
Liabilities				
Insurance and investment contract liabilities	$ 55,004	$ 28,376	$ 48,683	$ 132,063
Other liabilities	4,882	4,501	3,681	13,064
Investment and insurance contracts on account of segregated fund policyholders	62,204	28,168	70,407	160,779
Total	$ 122,090	$ 61,045	$ 122,771	$ 305,906

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