

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

	For the three months ended			For the six months ended	
	June 30 2016	March 31 2016	June 30 2015	June 30 2016	June 30 2015
Income					
Premium income					
Gross premiums written	\$ 7,834	\$ 7,926	\$ 6,410	\$ 15,760	\$ 14,216
Ceded premiums	(963)	(911)	(894)	(1,874)	(1,768)
Total net premiums	6,871	7,015	5,516	13,886	12,448
Net investment income (note 4)					
Regular net investment income	1,576	1,673	1,519	3,249	3,055
Changes in fair value through profit or loss	3,129	2,410	(4,037)	5,539	(1,084)
Total net investment income	4,705	4,083	(2,518)	8,788	1,971
Fee and other income	1,231	1,254	1,226	2,485	2,484
	12,807	12,352	4,224	25,159	16,903
Benefits and expenses					
Policyholder benefits					
Gross	6,143	6,642	5,127	12,785	10,767
Ceded	(501)	(472)	(490)	(973)	(973)
Total net policyholder benefits	5,642	6,170	4,637	11,812	9,794
Policyholder dividends and experience refunds	381	369	374	750	755
Changes in insurance and investment contract liabilities	4,012	3,139	(3,423)	7,151	928
Total paid or credited to policyholders	10,035	9,678	1,588	19,713	11,477
Commissions	599	566	554	1,165	1,069
Operating and administrative expenses	1,161	1,208	1,081	2,369	2,159
Premium taxes	98	92	80	190	164
Financing charges (note 9)	75	78	75	153	152
Amortization of finite life intangible assets	44	46	37	90	73
Restructuring and acquisition expenses	5	4	14	9	21
Earnings before income taxes	790	680	795	1,470	1,788
Income taxes (note 14)	76	24	86	100	310
Net earnings before non-controlling interests	714	656	709	1,370	1,478
Attributable to non-controlling interests	13	5	19	18	56
Net earnings	701	651	690	1,352	1,422
Preferred share dividends	30	31	31	61	63
Net earnings - common shareholders	\$ 671	\$ 620	\$ 659	\$ 1,291	\$ 1,359
Earnings per common share (note 11)					
Basic	\$ 0.675	\$ 0.625	\$ 0.661	\$ 1.300	\$ 1.363
Diluted	\$ 0.674	\$ 0.623	\$ 0.659	\$ 1.298	\$ 1.359

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

	For the three months ended			For the six months ended	
	June 30 2016	March 31 2016	June 30 2015	June 30 2016	June 30 2015
Net earnings	\$ 701	\$ 651	\$ 690	\$ 1,352	\$ 1,422
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	(508)	(984)	146	(1,492)	879
Unrealized foreign exchange gains (losses) on euro debt designated as hedge of the net investment in foreign operations	20	10	(15)	30	5
Income tax (expense) benefit	(3)	(1)	1	(4)	1
Unrealized gains (losses) on available-for-sale assets	125	121	(141)	246	(11)
Income tax (expense) benefit	(22)	(24)	30	(46)	2
Realized gains on available-for-sale assets	(18)	(31)	(20)	(49)	(93)
Income tax expense	3	4	3	7	15
Unrealized gains (losses) on cash flow hedges	(20)	95	29	75	(106)
Income tax (expense) benefit	7	(36)	(11)	(29)	40
Realized losses on cash flow hedges	—	1	—	1	1
Non-controlling interests	(21)	6	35	(15)	(7)
Income tax (expense) benefit	5	3	(10)	8	1
Total items that may be reclassified	(432)	(836)	47	(1,268)	727
Items that will not be reclassified to Consolidated Statements of Earnings					
Re-measurements on defined benefit pension and other post-employment benefit plans (note 13)	(220)	(242)	325	(462)	102
Income tax (expense) benefit	57	62	(77)	119	(29)
Non-controlling interests	14	19	(19)	33	(12)
Income tax (expense) benefit	(3)	(5)	5	(8)	4
Total items that will not be reclassified	(152)	(166)	234	(318)	65
Total other comprehensive income (loss)	(584)	(1,002)	281	(1,586)	792
Comprehensive income (loss)	\$ 117	\$ (351)	\$ 971	\$ (234)	\$ 2,214

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

	June 30 2016	December 31 2015
Assets		(note 16)
Cash and cash equivalents	\$ 3,068	\$ 2,813
Bonds (note 4)	114,802	114,943
Mortgage loans (note 4)	21,573	22,021
Stocks (note 4)	8,390	7,873
Investment properties (note 4)	4,377	5,237
Loans to policyholders	8,403	8,694
	<u>160,613</u>	<u>161,581</u>
Funds held by ceding insurers	12,418	15,512
Goodwill	5,885	5,913
Intangible assets	3,859	4,036
Derivative financial instruments	645	461
Owner occupied properties	633	653
Fixed assets	294	298
Other assets	2,460	2,643
Premiums in course of collection, accounts and interest receivable	3,844	3,553
Reinsurance assets (note 7)	4,936	5,131
Current income taxes	115	69
Deferred tax assets	1,824	1,891
Investments on account of segregated fund policyholders (note 8)	192,725	198,194
Total assets	<u>\$ 390,251</u>	<u>\$ 399,935</u>
Liabilities		
Insurance contract liabilities (note 7)	\$ 155,633	\$ 158,492
Investment contract liabilities (note 7)	2,076	2,253
Debentures and other debt instruments	5,204	5,395
Capital trust securities	161	161
Funds held under reinsurance contracts	313	356
Derivative financial instruments	2,087	2,624
Accounts payable	2,080	1,755
Other liabilities	3,788	3,367
Current income taxes	561	492
Deferred tax liabilities	1,422	1,586
Investment and insurance contracts on account of segregated fund policyholders (note 8)	192,725	198,194
Total liabilities	<u>366,050</u>	<u>374,675</u>
Equity		
Non-controlling interests		
Participating account surplus in subsidiaries	2,626	2,611
Non-controlling interests in subsidiaries	192	195
Shareholders' equity		
Share capital (note 10)		
Preferred shares	2,514	2,514
Common shares	7,156	7,156
Accumulated surplus	10,956	10,431
Accumulated other comprehensive income	632	2,218
Contributed surplus	125	135
Total equity	<u>24,201</u>	<u>25,260</u>
Total liabilities and equity	<u>\$ 390,251</u>	<u>\$ 399,935</u>

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

	June 30, 2016					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income	Non- controlling interests	Total equity
Balance, beginning of year	\$ 9,670	\$ 135	\$ 10,431	\$ 2,218	\$ 2,806	\$ 25,260
Net earnings	—	—	1,352	—	18	1,370
Other comprehensive loss	—	—	—	(1,586)	(18)	(1,604)
	9,670	135	11,783	632	2,806	25,026
Dividends to shareholders						
Preferred shareholders (note 11)	—	—	(61)	—	—	(61)
Common shareholders	—	—	(687)	—	—	(687)
Shares exercised and issued under share-based payment plans (note 10)	20	(45)	—	—	49	24
Share-based payment plans expense	—	35	—	—	—	35
Equity settlement of Putnam share-based plans	—	—	—	—	(39)	(39)
Shares purchased and cancelled under Normal Course Issuer Bid (note 10)	(97)	—	—	—	—	(97)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 10)	77	—	(77)	—	—	—
Dilution loss on non-controlling interests	—	—	(2)	—	2	—
Balance, end of period	\$ 9,670	\$ 125	\$ 10,956	\$ 632	\$ 2,818	\$ 24,201

	June 30, 2015					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income	Non- controlling interests	Total equity
Balance, beginning of year	\$ 9,616	\$ 126	\$ 9,134	\$ 378	\$ 2,643	\$ 21,897
Net earnings	—	—	1,422	—	56	1,478
Other comprehensive income	—	—	—	792	14	806
	9,616	126	10,556	1,170	2,713	24,181
Dividends to shareholders						
Preferred shareholders (note 11)	—	—	(63)	—	—	(63)
Common shareholders	—	—	(650)	—	—	(650)
Shares exercised and issued under share-based payment plans (note 10)	79	(46)	—	—	39	72
Share-based payment plans expense	—	29	—	—	—	29
Equity settlement of Putnam share-based plans	—	—	—	—	(23)	(23)
Shares purchased and cancelled under Normal Course Issuer Bid (note 10)	(76)	—	—	—	—	(76)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid (note 10)	61	—	(61)	—	—	—
Dilution loss on non-controlling interests	—	—	(3)	—	3	—
Balance, end of period	\$ 9,680	\$ 109	\$ 9,779	\$ 1,170	\$ 2,732	\$ 23,470

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

	For the six months ended June 30	
	2016	2015
Operations		
Earnings before income taxes	\$ 1,470	\$ 1,788
Income taxes paid, net of refunds received	(142)	(265)
Adjustments:		
Change in insurance and investment contract liabilities	7,175	(729)
Change in funds held by ceding insurers	295	479
Change in funds held under reinsurance contracts	5	(90)
Change in deferred acquisition costs	26	24
Change in reinsurance assets	(52)	124
Changes in fair value through profit or loss	(5,539)	1,084
Other	(95)	81
	3,143	2,496
Financing Activities		
Issue of common shares (note 10)	20	79
Purchased and cancelled common shares (note 10)	(97)	(76)
Decrease in line of credit of subsidiary	(93)	(161)
Increase (decrease) in debentures and other debt instruments	9	—
Dividends paid on common shares	(687)	(650)
Dividends paid on preferred shares	(61)	(63)
	(909)	(871)
Investment Activities		
Bond sales and maturities	16,876	16,396
Mortgage loan repayments	1,292	1,280
Stock sales	1,632	1,025
Investment property sales	373	4
Change in loans to policyholders	(63)	(104)
Investment in bonds	(18,026)	(17,821)
Investment in mortgage loans	(1,886)	(1,161)
Investment in stocks	(1,888)	(917)
Investment in investment properties	(84)	(246)
	(1,774)	(1,544)
Effect of changes in exchange rates on cash and cash equivalents	(205)	109
Increase in cash and cash equivalents	255	190
Cash and cash equivalents, beginning of period	2,813	2,498
Cash and cash equivalents, end of period	\$ 3,068	\$ 2,688
Supplementary cash flow information		
Interest income received	\$ 2,756	\$ 2,499
Interest paid	\$ 157	\$ 157
Dividend income received	\$ 129	\$ 120

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 and Europe 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 and six months ended June 30, 2016 were approved by the Board of Directors on August 3, 2016.

2. Basis of Presentation and Summary of Accounting Policies

These financial statements should be read in conjunction with the Company's December 31, 2015 consolidated annual audited financial statements and notes thereto.

The financial statements of the Company at June 30, 2016 have been prepared in compliance with the requirements of International Accounting Standard (IAS) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) using the same accounting policies and methods of computation followed in the consolidated financial statements for the year ended December 31, 2015 except as described below.

The Company adopted the narrow scope amendments to International Financial Reporting Standards (IFRS) for IFRS 11 *Joint Arrangements*, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 1 *Presentation of Financial Statements*, IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates and Joint Ventures* and *Annual Improvements 2012 - 2014 Cycle* effective January 1, 2016. The adoption of these narrow scope amendments did not have a significant impact on the Company's financial statements.

There have been no other significant changes to the future accounting policies that could impact the Company, as disclosed in the December 31, 2015 consolidated annual audited financial statements.

Use of Significant Judgments, Estimates and Assumptions

In preparation of these financial statements, management is required to make significant judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Although some uncertainty is inherent in these judgments and estimates, management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty and areas where significant judgments have been made are further described in the relevant accounting policies as described in note 2 of the Company's December 31, 2015 consolidated annual audited financial statements and notes thereto.

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

3. Business Acquisitions

On August 1, 2016, the Company, through its indirect wholly owned Irish subsidiary, Irish Life Group Limited, completed the acquisition of Aviva Health Insurance Ireland Limited (Aviva Health), an Irish health insurance company, and assumed control of GloHealth Financial Services Limited (GloHealth), where Irish Life Group Limited previously held 49%. The Company also announced that Aviva Health and GloHealth will combine to become one of the leading providers in the Irish health insurance market.

Due to the recent closing of the acquisitions, the valuation and initial purchase price accounting for the business combinations are not available as at the date of release of these interim consolidated financial statements. As a result, the Company has not provided amounts recognized as at the acquisition date for major classes of assets acquired and liabilities assumed, including goodwill and intangibles.

4. Portfolio Investments

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

	June 30, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss ⁽¹⁾	\$ 83,326	\$ 83,326	\$ 83,688	\$ 83,688
Classified fair value through profit or loss ⁽¹⁾	2,309	2,309	2,815	2,815
Available-for-sale	12,856	12,856	11,535	11,535
Loans and receivables	16,311	18,494	16,905	18,253
	114,802	116,985	114,943	116,291
Mortgage loans				
Residential	8,148	8,613	7,783	8,148
Commercial	13,425	14,732	14,238	15,298
	21,573	23,345	22,021	23,446
Stocks				
Designated fair value through profit or loss ⁽¹⁾	7,267	7,267	6,647	6,647
Available-for-sale	44	44	57	57
Available-for-sale, at cost ⁽²⁾	458	N/A	534	N/A
Equity method	621	586	635	601
	8,390	7,897	7,873	7,305
Investment properties	4,377	4,377	5,237	5,237
Total	\$ 149,142	\$ 152,604	\$ 150,074	\$ 152,279

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

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

⁽²⁾ Fair value cannot be reliably measured, therefore the investments are held at cost and excluded from the total fair value amount presented.

During the first quarter of 2016, the Company completed the transfer of annuity policies from The Equitable Life Assurance Society (Equitable Life) acquired during 2015. As a result, the related assets presented as Funds Held by Ceding Insurers in the December 31, 2015 consolidated annual audited financial statements are now recorded in Portfolio Investments.

4. Portfolio Investments (cont'd)

(b) Included in portfolio investments are the following:

Carrying amount of impaired investments

	June 30 2016	December 31 2015
Impaired amounts by classification		
Fair value through profit or loss	\$ 298	\$ 355
Available-for-sale	10	11
Loans and receivables	44	30
Total	\$ 352	\$ 396

The carrying amount of impaired investments includes bonds, stocks and mortgage loans. The above carrying values for loans and receivables are net of allowances of \$32 at June 30, 2016 and \$20 at December 31, 2015.

(c) Net investment income comprises the following:

For the three months ended June 30, 2016	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 1,074	\$ 230	\$ 62	\$ 89	\$ 138	\$ 1,593
Net realized gains (losses)						
Available-for-sale	19	—	(1)	—	—	18
Other classifications	4	26	—	—	—	30
Net allowances for credit losses on loans and receivables	—	(16)	—	—	—	(16)
Other income and expenses	—	—	—	(22)	(27)	(49)
	1,097	240	61	67	111	1,576
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	44	—	—	—	—	44
Designated fair value through profit or loss	3,151	—	161	—	(165)	3,147
Recorded at fair value through profit or loss	—	—	—	(62)	—	(62)
	3,195	—	161	(62)	(165)	3,129
Total	\$ 4,292	\$ 240	\$ 222	\$ 5	\$ (54)	\$ 4,705

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4. Portfolio Investments (cont'd)

For the three months ended June 30, 2015	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 1,035	\$ 238	\$ 60	\$ 87	\$ 121	\$ 1,541
Net realized gains						
Available-for-sale	20	—	—	—	—	20
Other classifications ⁽¹⁾	2	7	—	—	—	9
Net allowances for credit losses on loans and receivables	—	—	—	—	—	—
Other income and expenses	—	—	—	(26)	(25)	(51)
	<u>1,057</u>	<u>245</u>	<u>60</u>	<u>61</u>	<u>96</u>	<u>1,519</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	(26)	—	—	—	—	(26)
Designated fair value through profit or loss	(3,966)	—	(134)	—	8	(4,092)
Recorded at fair value through profit or loss	—	—	—	81	—	81
	<u>(3,992)</u>	<u>—</u>	<u>(134)</u>	<u>81</u>	<u>8</u>	<u>(4,037)</u>
Total	<u>\$ (2,935)</u>	<u>\$ 245</u>	<u>\$ (74)</u>	<u>\$ 142</u>	<u>\$ 104</u>	<u>\$ (2,518)</u>

⁽¹⁾ During the period, the Company reclassified \$7 from stocks to mortgage loans for the three months ended June 30, 2015 to conform to the current period's presentation.

For the six months ended June 30, 2016	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,168	\$ 467	\$ 141	\$ 172	\$ 321	\$ 3,269
Net realized gains						
Available-for-sale	49	—	—	—	—	49
Other classifications	15	35	—	—	—	50
Net allowances for credit losses on loans and receivables	—	(23)	—	—	—	(23)
Other income and expenses	—	—	—	(42)	(54)	(96)
	<u>2,232</u>	<u>479</u>	<u>141</u>	<u>130</u>	<u>267</u>	<u>3,249</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss	86	—	—	—	—	86
Designated fair value through profit or loss	5,405	—	313	—	(227)	5,491
Recorded at fair value through profit or loss	—	—	—	(38)	—	(38)
	<u>5,491</u>	<u>—</u>	<u>313</u>	<u>(38)</u>	<u>(227)</u>	<u>5,539</u>
Total	<u>\$ 7,723</u>	<u>\$ 479</u>	<u>\$ 454</u>	<u>\$ 92</u>	<u>\$ 40</u>	<u>\$ 8,788</u>

4. Portfolio Investments (cont'd)

For the six months ended June 30, 2015	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	\$ 2,052	\$ 481	\$ 122	\$ 175	\$ 211	\$ 3,041
Net realized gains						
Available-for-sale	93	—	1	—	—	94
Other classifications ⁽¹⁾	7	15	—	—	—	22
Net allowances for credit losses on loans and receivables						
	—	1	—	—	—	1
Other income and expenses						
	—	—	—	(51)	(52)	(103)
	<u>2,152</u>	<u>497</u>	<u>123</u>	<u>124</u>	<u>159</u>	<u>3,055</u>
Changes in fair value on fair value through profit or loss assets:						
Classified fair value through profit or loss						
	19	—	—	—	—	19
Designated fair value through profit or loss						
	(1,389)	—	28	—	122	(1,239)
Recorded at fair value through profit or loss						
	—	—	—	136	—	136
	<u>(1,370)</u>	<u>—</u>	<u>28</u>	<u>136</u>	<u>122</u>	<u>(1,084)</u>
Total	<u>\$ 782</u>	<u>\$ 497</u>	<u>\$ 151</u>	<u>\$ 260</u>	<u>\$ 281</u>	<u>\$ 1,971</u>

⁽¹⁾ During the period, the Company reclassified \$15 from stocks to mortgage loans for the six months ended June 30, 2015 to conform to the current period's presentation.

Investment income earned comprises income from investments that are classified as available-for-sale, loans and receivables and investments classified or designated as fair value through profit or loss. Investment income from bonds and mortgages includes interest income and premium and discount amortization. Income from stocks includes dividends and equity income from the investment in IGM Financial Inc. (IGM) 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. Other income includes policyholder loan income, foreign exchange gains and losses, income earned from derivative financial instruments and other miscellaneous income.

5. Financial Instruments Risk Management

The Company has policies relating to the identification, measurement, 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 the Company's 2015 Annual Report. Certain risks have been outlined below. For a discussion of the Company's risk governance structure and risk management approach, see the "Financial Instruments Risk Management" note in the Company's December 31, 2015 consolidated audited financial statements.

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

5. Financial Instruments Risk Management (cont'd)

(a) Credit Risk

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

Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. No significant changes have occurred from the year ended December 31, 2015.

(b) Liquidity Risk

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

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

(c) Market Risk

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

Caution Related to Risk Sensitivities

These 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.

5. Financial Instruments Risk Management (cont'd)

(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 IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income. Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts the Company's total equity. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted.

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

(ii) Interest Rate Risk

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

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

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

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

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

- 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 at June 30, 2016 and December 31, 2015.
- The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios would not change the total provision for interest rates at June 30, 2016 and December 31, 2015.

5. Financial Instruments Risk Management (cont'd)

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

	June 30, 2016		December 31, 2015	
	1% increase	1% decrease	1% increase	1% decrease
Change in interest rates				
Increase (decrease) in insurance and investment contract liabilities	\$ (216)	\$ 763	\$ (163)	\$ 614
Increase (decrease) in net earnings	\$ 159	\$ (547)	\$ 109	\$ (430)

(iii) Equity Risk

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

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

	June 30, 2016		December 31, 2015	
	10% increase	10% decrease	10% increase	10% decrease
Change in equity values				
Increase (decrease) in non-participating insurance and investment contract liabilities	\$ (62)	\$ 136	\$ (53)	\$ 139
Increase (decrease) in net earnings	\$ 52	\$ (106)	\$ 45	\$ (108)

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

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

	June 30, 2016		December 31, 2015	
	1% increase	1% decrease	1% increase	1% decrease
Change in best estimate return assumptions				
Increase (decrease) in non-participating insurance contract liabilities	\$ (522)	\$ 565	\$ (534)	\$ 573
Increase (decrease) in net earnings	\$ 425	\$ (451)	\$ 433	\$ (457)

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 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:

Assets measured at fair value	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,068	\$ —	\$ —	\$ 3,068
Financial assets at fair value through profit or loss				
Bonds	—	85,634	1	85,635
Stocks	7,208	6	53	7,267
Total financial assets at fair value through profit or loss	7,208	85,640	54	92,902
Available-for-sale financial assets				
Bonds	—	12,856	—	12,856
Stocks	43	—	1	44
Total available-for-sale financial assets	43	12,856	1	12,900
Investment properties	—	—	4,377	4,377
Derivatives ⁽¹⁾	2	643	—	645
Other assets:				
Trading account assets	401	207	1	609
Other ⁽²⁾	104	—	—	104
Total assets measured at fair value	\$ 10,826	\$ 99,346	\$ 4,433	\$ 114,605
Liabilities measured at fair value				
Derivatives ⁽³⁾	\$ 5	\$ 2,082	\$ —	\$ 2,087
Investment contract liabilities	—	2,055	21	2,076
Other liabilities	104	—	—	104
Total liabilities measured at fair value	\$ 109	\$ 4,137	\$ 21	\$ 4,267

⁽¹⁾ Excludes collateral received of \$128.

⁽²⁾ Includes cash collateral under securities lending agreements.

⁽³⁾ Excludes collateral pledged of \$401.

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

6. Fair Value Measurement (cont'd)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Cash and cash equivalents	\$ 2,813	\$ —	\$ —	\$ 2,813
Financial assets at fair value through profit or loss				
Bonds	—	86,493	10	86,503
Stocks	6,573	8	66	6,647
Total financial assets at fair value through profit or loss	6,573	86,501	76	93,150
Available-for-sale financial assets				
Bonds	—	11,534	1	11,535
Stocks	56	—	1	57
Total available-for-sale financial assets	56	11,534	2	11,592
Investment properties	—	—	5,237	5,237
Derivatives ⁽¹⁾	4	457	—	461
Other assets:				
Trading account assets	381	204	5	590
Total assets measured at fair value	<u>\$ 9,827</u>	<u>\$ 98,696</u>	<u>\$ 5,320</u>	<u>\$ 113,843</u>
Liabilities measured at fair value				
Derivatives ⁽²⁾	\$ 3	\$ 2,621	\$ —	\$ 2,624
Investment contract liabilities	—	2,226	27	2,253
Total liabilities measured at fair value	<u>\$ 3</u>	<u>\$ 4,847</u>	<u>\$ 27</u>	<u>\$ 4,877</u>

⁽¹⁾ Excludes collateral received of \$107.

⁽²⁾ Excludes collateral pledged of \$608.

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

6. Fair Value Measurement (cont'd)

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

	June 30, 2016							
	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	\$ 10	\$ 1	\$ 66	\$ 1	\$ 5,237	\$ 5	\$ 5,320	\$ 27
Total losses								
Included in net earnings	—	—	(3)	—	(38)	—	(41)	—
Included in other comprehensive income ⁽¹⁾	(1)	—	—	—	(533)	—	(534)	—
Purchases	—	—	3	—	84	1	88	—
Sales	—	—	(13)	—	(373)	(5)	(391)	—
Other	—	—	—	—	—	—	—	(6)
Transfers into Level 3 ⁽²⁾	—	—	—	—	—	—	—	—
Transfers out of Level 3 ⁽²⁾	(8)	(1)	—	—	—	—	(9)	—
Balance, end of period	\$ 1	\$ —	\$ 53	\$ 1	\$ 4,377	\$ 1	\$ 4,433	\$ 21
Total losses for the period included in net investment income	\$ —	\$ —	\$ (3)	\$ —	\$ (38)	\$ —	\$ (41)	\$ —
Change in unrealized losses for the period included in net earnings for assets held at June 30, 2016	\$ —	\$ —	\$ (3)	\$ —	\$ (300)	\$ —	\$ (303)	\$ —

- (1) Other comprehensive income for investment properties represents the unrealized losses 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.

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6. Fair Value Measurement (cont'd)

	December 31, 2015							
	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	\$ 86	\$ 1	\$ 17	\$ 1	\$ 4,613	\$ —	\$ 4,718	\$ 28
Total gains								
Included in net earnings	5	—	7	—	249	—	261	—
Included in other comprehensive income ⁽¹⁾	—	—	—	—	379	—	379	—
Purchases	—	—	50	—	278	5	333	—
Sales	—	—	(4)	—	(282)	—	(286)	—
Repayments	(47)	—	—	—	—	—	(47)	—
Other	—	—	—	—	—	—	—	(1)
Transfers into Level 3 ⁽²⁾	—	—	—	—	—	—	—	—
Transfers out of Level 3 ⁽²⁾	(34)	—	(4)	—	—	—	(38)	—
Balance, end of year	\$ 10	\$ 1	\$ 66	\$ 1	\$ 5,237	\$ 5	\$ 5,320	\$ 27
Total gains for the year included in net investment income	\$ 5	\$ —	\$ 7	\$ —	\$ 249	\$ —	\$ 261	\$ —
Change in unrealized gains for the year included in earnings for assets held at December 31, 2015	\$ 5	\$ —	\$ 7	\$ —	\$ 243	\$ —	\$ 255	\$ —

- (1) Other comprehensive income for investment properties represents the unrealized gains 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
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 3.1% - 10.0%	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 5.0% - 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 3.8%	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. Insurance and Investment Contract Liabilities

	June 30, 2016		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 155,633	\$ 4,936	\$ 150,697
Investment contract liabilities	2,076	—	2,076
Total	\$ 157,709	\$ 4,936	\$ 152,773
December 31, 2015			
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	\$ 158,492	\$ 5,131	\$ 153,361
Investment contract liabilities	2,253	—	2,253
Total	\$ 160,745	\$ 5,131	\$ 155,614

8. Segregated Funds

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

(a) Investments on account of segregated fund policyholders

	June 30	December 31
	2016	2015
Cash and cash equivalents	\$ 11,799	\$ 11,656
Bonds	43,015	42,160
Mortgage loans	2,625	2,596
Stocks and units in unit trusts	75,418	80,829
Mutual funds	49,686	50,101
Investment properties	10,665	10,839
	<u>193,208</u>	<u>198,181</u>
Accrued income	382	382
Other liabilities	(2,251)	(1,759)
Non-controlling mutual funds interest	1,386	1,390
Total	<u><u>\$ 192,725</u></u>	<u><u>\$ 198,194</u></u>

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

	For the six months	
	ended June 30	
	2016	2015
Balance, beginning of year	\$ 198,194	\$ 174,966
Additions (deductions):		
Policyholder deposits	10,998	9,882
Net investment income	989	951
Net realized capital gains on investments	1,544	2,771
Net unrealized capital gains on investments	1,165	2,377
Unrealized gains (losses) due to changes in foreign exchange rates	(9,748)	4,017
Policyholder withdrawals	(10,439)	(10,505)
Segregated Fund investment in General Fund	18	31
General Fund investment in Segregated Fund	(5)	(6)
Net transfer from General Fund	13	30
Non-controlling mutual funds interest	(4)	321
Total	<u>(5,469)</u>	<u>9,869</u>
Balance, end of period	<u><u>\$ 192,725</u></u>	<u><u>\$ 184,835</u></u>

8. Segregated Funds (cont'd)

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

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ⁽¹⁾	\$ 118,125	\$ 64,570	\$ 11,517	\$ 194,212

⁽¹⁾ Excludes other liabilities, net of other assets, of \$1,487.

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Investments on account of segregated fund policyholders ⁽¹⁾	\$ 120,283	\$ 67,333	\$ 11,765	\$ 199,381

⁽¹⁾ Excludes other liabilities, net of other assets, of \$1,187.

During the first six months of 2016 certain foreign stock holdings valued at \$217 have been transferred from Level 2 to Level 1 (\$412 were transferred from Level 1 to Level 2 at December 31, 2015) based on the Company's ability to utilize observable, quoted prices in active markets.

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 2016	December 31 2015
Balance, beginning of year	\$ 11,765	\$ 10,390
Total gains (losses) included in segregated fund investment income	(197)	1,039
Purchases	186	944
Sales	(237)	(607)
Transfers out of Level 3	—	(1)
Balance, end of period	\$ 11,517	\$ 11,765

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors. There were no transfers into Level 3 during the period ended June 30, 2016.

For further details on the Company's risk and guarantee exposure and the management of these risks, refer to the "Segregated Fund and Variable Annuity Guarantees" section of the Company's Management's Discussion and Analysis for the period ended June 30, 2016 and the "Risk Management and Control Practices" section of the Company's December 31, 2015 Management's Discussion and Analysis.

9. Financing Charges

Financing charges consist of the following:

	For the three months ended June 30		For the six months ended June 30	
	2016	2015	2016	2015
Operating charges				
Interest on operating lines and short-term debt instruments	\$ 2	\$ 2	\$ 4	\$ 3
Financial charges				
Interest on long-term debentures and other debt instruments	64	65	130	131
Interest on capital trust securities	2	2	5	5
Other	7	6	14	13
	<u>73</u>	<u>73</u>	<u>149</u>	<u>149</u>
Total	<u>\$ 75</u>	<u>\$ 75</u>	<u>\$ 153</u>	<u>\$ 152</u>

During the second quarter of 2016, Great-West Life & Annuity Insurance Capital, LP II, a subsidiary, elected to not call its U.S. \$300 7.153% junior subordinated debentures with a first par call date of May 16, 2016 and a final maturity date of May 16, 2046. Beginning May 16, 2016, the debentures will pay a floating rate of interest set at 3-month LIBOR plus 2.538%. Great-West Financial also entered into an interest rate swap transaction whereby it will pay a fixed 4.68% rate of interest and will receive a floating 3-month LIBOR plus 2.538% rate of interest on the notional principal amount.

10. Share Capital

Common Shares

	For the six months ended June 30			
	2016		2015	
	Number	Carrying Value	Number	Carrying Value
Common shares				
Balance, beginning of year	993,350,331	\$ 7,156	996,699,371	\$ 7,102
Purchased and cancelled under Normal Course Issuer Bid	(2,831,181)	(97)	(2,126,298)	(76)
Excess of redemption proceeds over stated capital per Normal Course Issuer Bid	—	77	—	61
Exercised and issued under stock option plan	639,234	20	2,306,036	79
Balance, end of period	<u>991,158,384</u>	<u>\$ 7,156</u>	<u>996,879,109</u>	<u>\$ 7,166</u>

On January 5, 2016, the Company announced a normal course issuer bid commencing January 8, 2016 and terminating January 7, 2017 to purchase for cancellation up to but not more than 8,000,000 of its common shares at market prices. On February 22, 2016, the Company announced an amendment to the current normal course issuer bid allowing the Company to purchase up to 20,000,000 of its common shares at market prices. The amended normal course issuer bid was effective February 23, 2016 and will continue until January 7, 2017.

10. Share Capital (cont'd)

On June 17, 2016, the Company announced that it intends to purchase for cancellation, up to 5,809,000 of its common shares pursuant to private agreements between the Company and several arm's length third-party sellers. These purchases will be made pursuant to issuer bid exemption orders issued by the Ontario Securities Commission. Any purchases of common shares made by way of private agreements under the orders will be at a discount to the prevailing market price of the common shares on the Toronto Stock Exchange at the time of purchase, may be made in one or more trades from time to time, and will otherwise comply with the terms of the orders. The total number of common shares which may be purchased under private agreements may not exceed 6,666,666, being one-third of the total number of common shares which may be purchased under the Company's normal course issuer bid, and any purchases must occur on or before January 7, 2017. All common shares purchased by way of private agreement made pursuant to the orders will be included in the total number of common shares which may be purchased under the Company's normal course issuer bid. As of June 30, 2016, the Company had entered into private agreements for the repurchase of 1,600,000 of its common shares.

During the six months ended June 30, 2016, the Company repurchased and subsequently cancelled 2,831,181 common shares at a cost of \$97 (2,126,298 during the six months ended June 30, 2015 under the previous normal course issuer bid at a cost of \$76). 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 \$77 and was recognized as a reduction to equity (\$61 during the six months ended June 30, 2015 under the previous normal course issuer bid).

During the six months ended June 30, 2016, 639,234 common shares were exercised under the Company's stock plan with a carrying value of \$20 (2,306,036 with a carrying value of \$79 during the six months ended June 30, 2015).

11. Earnings per Common Share

	For the three months ended June 30		For the six months ended June 30	
	2016	2015	2016	2015
Earnings				
Net earnings	\$ 701	\$ 690	\$ 1,352	\$ 1,422
Preferred share dividends	(30)	(31)	(61)	(63)
Net earnings - common shareholders	\$ 671	\$ 659	\$ 1,291	\$ 1,359
Number of common shares				
Average number of common shares outstanding	992,837,470	997,371,589	993,044,221	997,113,344
Add: Potential exercise of outstanding stock options	1,998,103	2,768,324	1,889,719	2,512,342
Average number of common shares outstanding - diluted basis	994,835,573	1,000,139,913	994,933,940	999,625,686
Basic earnings per common share	\$ 0.675	\$ 0.661	\$ 1.300	\$ 1.363
Diluted earnings per common share	\$ 0.674	\$ 0.659	\$ 1.298	\$ 1.359
Dividends per common share	\$ 0.3460	\$ 0.3260	\$ 0.6920	\$ 0.6520

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:

	June 30 2016	December 31 2015
Adjusted Net Tier 1 Capital	\$ 12,475	\$ 13,195
Net Tier 2 Capital	2,693	2,535
Total Capital Available	\$ 15,168	\$ 15,730
Total Capital Required	\$ 6,536	\$ 6,599
Tier 1 Ratio	191%	200%
Total Ratio	232%	238%

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

13. Pension Plans and Other Post-Employment Benefits

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

	For the three months ended June 30		For the six months ended June 30	
	2016	2015	2016	2015
Pension plans				
Service costs	\$ 53	\$ 52	\$ 105	\$ 102
Net interest cost	5	7	11	13
Curtailment	—	—	(13)	—
	58	59	103	115
Other post-employment benefits				
Service costs	—	—	1	1
Net interest cost	5	4	8	8
	5	4	9	9
Pension plans and other post-employment benefits expense - Consolidated Statements of Earnings	63	63	112	124
Pension plans - re-measurements				
Actuarial loss (gain)	323	(571)	596	(34)
Return on assets less (greater) than assumed	(121)	236	(127)	(184)
Administrative expenses less (greater) than assumed	(1)	1	(2)	1
Change in the asset ceiling	3	27	(23)	112
Actuarial loss (gain) - investment in associate ⁽¹⁾	1	2	(8)	6
Pension plans re-measurement loss (income)	205	(305)	436	(99)
Other post-employment benefits - re-measurements				
Actuarial loss (gain)	15	(20)	26	(3)
Pension plans and other post-employment benefits re-measurements - other comprehensive loss (income)	220	(325)	462	(102)
Total pension plans and other post - employment benefits expense (income) including re-measurements	\$ 283	\$ (262)	\$ 574	\$ 22

⁽¹⁾ This includes the Company's share of pension plan re-measurements for an investment in an associate accounted for under the equity method.

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

	June 30		March 31		December 31	
	2016	2015	2016	2015	2015	2014
Weighted average discount rate	3.1%	3.7%	3.5%	3.1%	3.8%	3.5%

14. 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	
	2016	2015	2016	2015
Current income taxes	\$ 119	\$ 31	\$ 173	\$ 180
Deferred income taxes	(43)	55	(73)	130
Total income tax expense	\$ 76	\$ 86	\$ 100	\$ 310

(b) Effective Income Tax Rate

The overall effective income tax rate for Lifeco for the three months ended June 30, 2016 was 9.6% compared to 10.8% for the three months ended June 30, 2015. The overall effective income tax rate for Lifeco for the six months ended June 30, 2016 was 6.8% compared to 17.3% for the six months ended June 30, 2015. The effective income tax rates are generally lower than the Company's statutory income tax rate of 26.75% due to benefits related to non-taxable investment income and lower income tax in certain foreign jurisdictions.

The effective income tax rate for the three months ended June 30, 2016 is lower than the effective income tax rate for the same period last year primarily due to changes in certain tax estimates in 2015 that resulted in higher taxes in that period.

The effective income tax rate for the six months ended June 30, 2016 is lower than the effective income tax rate for the six months ended June 30, 2015 primarily due to a higher percentage of the Company's income consisting of non-taxable investment income and higher earnings in low-tax jurisdictions. In addition, items due to elections and settlements with tax authorities decreased the year-to-date effective income tax rate.

(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 where 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 \$1,340 at June 30, 2016 (\$1,434 at December 31, 2015).

15. Segmented Information

Consolidated Net Earnings

For the three months ended June 30, 2016

	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	\$ 2,896	\$ 1,267	\$ 2,708	\$ —	\$ 6,871
Net investment income					
Regular net investment income	665	420	487	4	1,576
Changes in fair value through profit or loss	940	526	1,663	—	3,129
Total net investment income	1,605	946	2,150	4	4,705
Fee and other income	369	555	307	—	1,231
	<u>4,870</u>	<u>2,768</u>	<u>5,165</u>	<u>4</u>	<u>12,807</u>
Benefits and expenses					
Paid or credited to policyholders	3,632	1,996	4,407	—	10,035
Other ⁽¹⁾	833	645	374	6	1,858
Financing charges	26	35	11	3	75
Amortization of finite life intangible assets	17	20	7	—	44
Restructuring and acquisition expenses	—	4	1	—	5
Earnings (loss) before income taxes	<u>362</u>	<u>68</u>	<u>365</u>	<u>(5)</u>	<u>790</u>
Income taxes (recovery)	23	12	46	(5)	76
Net earnings (loss) before non-controlling interests	<u>339</u>	<u>56</u>	<u>319</u>	<u>—</u>	<u>714</u>
Non-controlling interests	11	1	1	—	13
Net earnings (loss)	<u>328</u>	<u>55</u>	<u>318</u>	<u>—</u>	<u>701</u>
Preferred share dividends	26	—	4	—	30
Net earnings (loss) before capital allocation	<u>302</u>	<u>55</u>	<u>314</u>	<u>—</u>	<u>671</u>
Impact of capital allocation	25	(2)	(21)	(2)	—
Net earnings (loss) - common shareholders	<u>\$ 327</u>	<u>\$ 53</u>	<u>\$ 293</u>	<u>\$ (2)</u>	<u>\$ 671</u>

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

15. Segmented Information (cont'd)

For the three months ended June 30, 2015

	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	\$ 2,839	\$ 905	\$ 1,772	\$ —	\$ 5,516
Net investment income					
Regular net investment income	630	390	498	1	1,519
Changes in fair value through profit or loss	(1,181)	(566)	(2,290)	—	(4,037)
Total net investment income	(551)	(176)	(1,792)	1	(2,518)
Fee and other income	366	577	283	—	1,226
	<u>2,654</u>	<u>1,306</u>	<u>263</u>	<u>1</u>	<u>4,224</u>
Benefits and expenses					
Paid or credited to policyholders	1,460	543	(415)	—	1,588
Other ⁽¹⁾	775	614	322	4	1,715
Financing charges	29	35	10	1	75
Amortization of finite life intangible assets	15	18	4	—	37
Restructuring and acquisition expenses	—	3	11	—	14
Earnings (loss) before income taxes	375	93	331	(4)	795
Income taxes (recovery)	47	22	18	(1)	86
Net earnings (loss) before non-controlling interests	328	71	313	(3)	709
Non-controlling interests	16	2	1	—	19
Net earnings (loss)	312	69	312	(3)	690
Preferred share dividends	26	—	5	—	31
Net earnings (loss) before capital allocation	286	69	307	(3)	659
Impact of capital allocation	22	(2)	(18)	(2)	—
Net earnings (loss) - common shareholders	<u>\$ 308</u>	<u>\$ 67</u>	<u>\$ 289</u>	<u>\$ (5)</u>	<u>\$ 659</u>

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

15. Segmented Information (cont'd)

For the six months ended June 30, 2016

	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	\$ 5,757	\$ 2,647	\$ 5,482	\$ —	\$ 13,886
Net investment income					
Regular net investment income	1,401	874	970	4	3,249
Changes in fair value through profit or loss	1,477	1,007	3,055	—	5,539
Total net investment income	2,878	1,881	4,025	4	8,788
Fee and other income	731	1,126	628	—	2,485
	<u>9,366</u>	<u>5,654</u>	<u>10,135</u>	<u>4</u>	<u>25,159</u>
Benefits and expenses					
Paid or credited to policyholders	6,933	4,108	8,672	—	19,713
Other ⁽¹⁾	1,650	1,331	733	10	3,724
Financing charges	55	72	23	3	153
Amortization of finite life intangible assets	33	42	15	—	90
Restructuring and acquisition expenses	—	7	2	—	9
Earnings (loss) before income taxes	<u>695</u>	<u>94</u>	<u>690</u>	<u>(9)</u>	<u>1,470</u>
Income taxes (recovery)	74	(28)	59	(5)	100
Net earnings (loss) before non-controlling interests	<u>621</u>	<u>122</u>	<u>631</u>	<u>(4)</u>	<u>1,370</u>
Non-controlling interests	16	2	—	—	18
Net earnings (loss)	<u>605</u>	<u>120</u>	<u>631</u>	<u>(4)</u>	<u>1,352</u>
Preferred share dividends	52	—	9	—	61
Net earnings (loss) before capital allocation	<u>553</u>	<u>120</u>	<u>622</u>	<u>(4)</u>	<u>1,291</u>
Impact of capital allocation	50	(4)	(42)	(4)	—
Net earnings (loss) - common shareholders	<u>\$ 603</u>	<u>\$ 116</u>	<u>\$ 580</u>	<u>\$ (8)</u>	<u>\$ 1,291</u>

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

15. Segmented Information (cont'd)

For the six months ended June 30, 2015

	Canada	United States	Europe	Lifeco Corporate	Total
Income					
Total net premiums	\$ 5,506	\$ 1,634	\$ 5,308	\$ —	\$ 12,448
Net investment income					
Regular net investment income	1,259	785	1,011	—	3,055
Changes in fair value through profit or loss	195	(334)	(945)	—	(1,084)
Total net investment income	1,454	451	66	—	1,971
Fee and other income	724	1,150	610	—	2,484
	<u>7,684</u>	<u>3,235</u>	<u>5,984</u>	<u>—</u>	<u>16,903</u>
Benefits and expenses					
Paid or credited to policyholders	5,225	1,664	4,588	—	11,477
Other ⁽¹⁾	1,538	1,200	646	8	3,392
Financing charges	58	71	22	1	152
Amortization of finite life intangible assets	29	35	9	—	73
Restructuring and acquisition expenses	—	4	17	—	21
Earnings (loss) before income taxes	834	261	702	(9)	1,788
Income taxes (recovery)	170	66	76	(2)	310
Net earnings (loss) before non-controlling interests	664	195	626	(7)	1,478
Non-controlling interests	49	4	3	—	56
Net earnings (loss)	615	191	623	(7)	1,422
Preferred share dividends	52	—	11	—	63
Net earnings (loss) before capital allocation	563	191	612	(7)	1,359
Impact of capital allocation	44	(3)	(37)	(4)	—
Net earnings (loss) - common shareholders	<u>\$ 607</u>	<u>\$ 188</u>	<u>\$ 575</u>	<u>\$ (11)</u>	<u>\$ 1,359</u>

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

16. Comparative Figures

The Company corrected the classification of \$73 of deferred tax liabilities to investment contract liabilities to conform to the current period presentation. The reclassifications had no impact on the net earnings of the Company.