Interim Condensed Consolidated Financial Statements

Consolidated Statements of Earnings

(unaudited) *(in thousands of Canadian dollars, except shares and per share amounts)*	THREE MONTHS ENDED JUNE 30 **2014**	 2013	SIX MONTHS ENDED JUNE 30 **2014**	 2013
Revenues				
Management fees	**$ 503,887**	$ 451,956	**$ 989,653**	$ 894,826
Administration fees	**99,309**	87,859	**194,532**	173,444
Distribution fees	**86,113**	79,754	**178,524**	161,199
Net investment income and other	**6,921**	26,397	**28,923**	49,862
Proportionate share of affiliate's earnings	**23,995**	20,987	**43,439**	40,320
	720,225	666,953	**1,435,071**	1,319,651
Expenses				
Commission	**245,699**	218,999	**488,868**	437,028
Non-commission	**211,162**	182,637	**406,939**	360,535
Interest	**22,964**	22,963	**45,713**	45,712
	479,825	424,599	**941,520**	843,275
Earnings before income taxes	**240,400**	242,354	**493,551**	476,376
Income taxes	**47,937**	49,276	**104,427**	100,574
Net earnings	**192,463**	193,078	**389,124**	375,802
Perpetual preferred share dividends	**2,212**	2,212	**4,425**	4,425
Net earnings available to common shareholders	**$ 190,251**	$ 190,866	**$ 384,699**	$ 371,377
Average number of common shares *(in thousands) (Note 11)*				
– Basic	**252,286**	251,935	**252,327**	251,953
– Diluted	**253,126**	252,451	**253,261**	252,418
Earnings per share *(in dollars) (Note 11)*				
– Basic	**$ 0.75**	$ 0.76	**$ 1.52**	$ 1.47
– Diluted	**$ 0.75**	$ 0.76	**$ 1.52**	$ 1.47

(See accompanying notes to interim condensed consolidated financial statements.)

Consolidated Statements of Comprehensive Income

(unaudited) *(in thousands of Canadian dollars)*	THREE MONTHS ENDED JUNE 30 **2014**	2013	SIX MONTHS ENDED JUNE 30 **2014**	2013
Net earnings	**$ 192,463**	$ 193,078	**$ 389,124**	$ 375,802
Other comprehensive income (loss), net of tax				
Items that will not be reclassified to Net earnings				
Employee benefits				
Net actuarial gains (losses), *net of tax of $4,266, $(1,573), $9,818 and $(2,641)*	**(11,536)**	4,256	**(26,552)**	7,141
Investment in affiliate – employee benefits and other				
Other comprehensive income (loss), *net of tax of nil*	**(3,343)**	2,761	**2,413**	2,761
Items that may be reclassified subsequently to Net earnings				
Available for sale securities				
Net unrealized gains (losses), *net of tax of $(10), $(41), $(54) and $(430)*	**26**	111	**148**	1,190
Reclassification of realized (gains) losses to net earnings, *net of tax of $(6), $349, $34 and $679*	**20**	(957)	**(91)**	(1,879)
	46	(846)	**57**	(689)
Investment in affiliate and other				
Other comprehensive income (loss), *net of tax of $122, $(300), $526 and $(1,007)*	**19,858**	(1,201)	**34,899**	6,792
	5,025	4,970	**10,817**	16,005
Comprehensive income	**$ 197,488**	$ 198,048	**$ 399,941**	$ 391,807

(See accompanying notes to interim condensed consolidated financial statements.)

Consolidated Balance Sheets

(unaudited) *(in thousands of Canadian dollars)*	June 30 2014	December 31 2013
Assets		
Cash and cash equivalents	**$ 917,936**	$ 1,082,437
Securities	**78,511**	68,735
Accounts and other receivables	**435,050**	367,532
Income taxes recoverable	**55,951**	33,044
Loans *(Note 3)*	**6,331,213**	5,851,500
Derivative financial instruments	**41,212**	57,351
Other assets	**51,332**	35,411
Investment in affiliate	**774,225**	717,775
Capital assets	**118,100**	121,435
Deferred selling commissions	**710,421**	688,230
Deferred income taxes	**60,927**	64,010
Intangible assets	**1,145,107**	1,136,850
Goodwill	**2,656,539**	2,655,859
	$ 13,376,524	$ 12,880,169
Liabilities		
Accounts payable and accrued liabilities	**$ 342,494**	$ 352,257
Income taxes payable	**23,848**	33,099
Derivative financial instruments	**31,311**	35,476
Deposits and certificates	**201,836**	186,420
Other liabilities	**403,463**	365,519
Obligations to securitization entities *(Note 4)*	**5,915,780**	5,572,055
Deferred income taxes	**311,667**	302,748
Long-term debt	**1,325,000**	1,325,000
	8,555,399	8,172,574
Shareholders' Equity		
Share capital		
Perpetual preferred shares	**150,000**	150,000
Common shares	**1,650,598**	1,630,844
Contributed surplus	**32,509**	32,627
Retained earnings	**3,060,160**	2,977,083
Accumulated other comprehensive income (loss)	**(72,142)**	(82,959)
	4,821,125	4,707,595
	$ 13,376,524	$ 12,880,169

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 7, 2014.

(See accompanying notes to interim condensed consolidated financial statements.)

Consolidated Statements of Changes in Shareholders' Equity

(unaudited) (in thousands of Canadian dollars)	Share Capital: Perpetual Preferred Shares (Note 5)	Share Capital: Common Shares (Note 5)	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Note 8)	Total Shareholders' Equity
						Six months ended June 30
2014						
Balance, beginning of period	**$ 150,000**	**$ 1,630,844**	**$ 32,627**	**$ 2,977,083**	**$ (82,959)**	**$ 4,707,595**
Net earnings	**–**	**–**	**–**	**389,124**	**–**	**389,124**
Other comprehensive income (loss), net of tax	**–**	**–**	**–**	**–**	**10,817**	**10,817**
Total comprehensive income (loss)	**–**	**–**	**–**	**389,124**	**10,817**	**399,941**
Common shares						
Issued under stock option plan	**–**	**23,828**	**–**	**–**	**–**	**23,828**
Purchased for cancellation	**–**	**(4,074)**	**–**	**–**	**–**	**(4,074)**
Stock options						
Current period expense	**–**	**–**	**3,177**	**–**	**–**	**3,177**
Exercised	**–**	**–**	**(3,295)**	**–**	**–**	**(3,295)**
Perpetual preferred share dividends	**–**	**–**	**–**	**(4,425)**	**–**	**(4,425)**
Common share dividends	**–**	**–**	**–**	**(271,206)**	**–**	**(271,206)**
Common share cancellation excess and other *(Note 5)*	**–**	**–**	**–**	**(30,416)**	**–**	**(30,416)**
Balance, end of period	**$ 150,000**	**$ 1,650,598**	**$ 32,509**	**$ 3,060,160**	**$ (72,142)**	**$ 4,821,125**
2013						
Balance, beginning of period	$ 150,000	$ 1,572,573	$ 36,468	$ 2,813,257	$ (132,305)	$ 4,439,993
Net earnings	–	–	–	375,802	–	375,802
Other comprehensive income (loss), net of tax	–	–	–	–	16,005	16,005
Total comprehensive income (loss)	–	–	–	375,802	16,005	391,807
Common shares						
Issued under stock option plan	–	28,823	–	–	–	28,823
Purchased for cancellation	–	(4,652)	–	–	–	(4,652)
Stock options						
Current period expense	–	–	2,888	–	–	2,888
Exercised	–	–	(3,814)	–	–	(3,814)
Perpetual preferred share dividends	–	–	–	(4,425)	–	(4,425)
Common share dividends	–	–	–	(270,896)	–	(270,896)
Common share cancellation excess and other *(Note 5)*	–	–	–	(34,568)	–	(34,568)
Balance, end of period	$ 150,000	$ 1,596,744	$ 35,542	$ 2,879,170	$ (116,300)	$ 4,545,156

(See accompanying notes to interim condensed consolidated financial statements.)

Consolidated Statements of Cash Flows

(unaudited) *(in thousands of Canadian dollars)*	SIX MONTHS ENDED JUNE 30 **2014**	 2013
Operating activities		
Earnings before income taxes	**$ 493,551**	$ 476,376
Income taxes paid	**(113,543)**	(113,088)
Adjustments to determine net cash from operating activities		
Deferred selling commission amortization	**118,814**	125,355
Amortization of capital and intangible assets	**16,672**	16,226
Changes in operating assets and liabilities and other	**(104,989)**	(59,737)
	410,505	445,132
Deferred selling commissions paid	**(141,005)**	(130,890)
	269,500	314,242
Financing activities		
Net increase in deposits and certificates	**15,416**	13,593
Net decrease in obligations related to assets sold under repurchase agreements	**–**	(3,140)
Net increase in obligations to securitization entities	**345,778**	299,824
Issue of common shares	**21,859**	25,529
Common shares purchased for cancellation	**(33,224)**	(33,158)
Perpetual preferred share dividends paid	**(4,425)**	(4,425)
Common share dividends paid	**(271,269)**	(270,898)
	74,135	27,325
Investing activities		
Purchase of securities	**(32,617)**	(43,152)
Proceeds from the sale of securities	**25,980**	43,891
Net increase in loans	**(479,324)**	(372,640)
Net additions to capital assets	**(6,099)**	(4,366)
Net cash used in acquisitions and additions to intangible assets	**(16,076)**	(10,914)
Investment in affiliate	**–**	(50,115)
	(508,136)	(437,296)
Decrease in cash and cash equivalents	**(164,501)**	(95,729)
Cash and cash equivalents, beginning of period	**1,082,437**	1,059,090
Cash and cash equivalents, end of period	**$ 917,936**	$ 963,361
Cash	**$ 51,458**	$ 59,894
Cash equivalents	**866,478**	903,467
	$ 917,936	$ 963,361
Supplemental disclosure of cash flow information related to operating activities		
Interest and dividends received	**$ 113,799**	$ 102,654
Interest paid	**$ 107,110**	$ 91,219

(See accompanying notes to interim condensed consolidated financial statements.)

Notes to the Interim Condensed Consolidated Financial Statements

JUNE 30, 2014 *(unaudited) (In thousands of Canadian dollars, except shares and per share amounts)*

1. CORPORATE INFORMATION

IGM Financial Inc. (the Company) is a publicly listed company (TSX: IGM), incorporated and domiciled in Canada. The registered address of the Company is 447 Portage Avenue, Winnipeg, Manitoba, Canada. The Company is controlled by Power Financial Corporation.

IGM Financial Inc. is a financial services company which serves the financial needs of Canadians through its principal subsidiaries, each operating distinctly within the advice segment of the financial services market. The Company's principal subsidiaries are Investors Group Inc. and Mackenzie Financial Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited Interim Condensed Consolidated Financial Statements of the Company (Interim Financial Statements) have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using the accounting policies as set out in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2013. The Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements in the 2013 IGM Financial Inc. Annual Report.

Future accounting changes

The Company continuously monitors the potential changes proposed by the International Accounting Standards Board (IASB) and analyzes the effect that changes in the standards may have on the Company's operations.

IFRS 9 Financial Instruments

The IASB issued IFRS 9 which replaces IAS 39, the current standard for accounting for financial instruments. The standard was completed in three separate phases:

- Classification and measurement: This phase requires that financial assets be classified at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- Impairment methodology: This phase replaces the current incurred loss model for impairment of financial assets with an expected loss model.
- Hedge accounting: This phase replaces the current rule-based hedge accounting requirements in IAS 39 with guidance that more closely aligns the accounting with an entity's risk management activities.

This standard is effective for annual periods beginning on or after January 1, 2018 and the impact of the standard is currently being assessed.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The model requires an entity to recognize revenue as the goods or services are transferred to the customer in an amount that reflects the expected consideration. This standard is effective for annual reporting periods beginning on or after January 1, 2017 and the impact of the standard is currently being assessed.

3. LOANS

	CONTRACTUAL MATURITY				
	1 YEAR OR LESS	1 – 5 YEARS	OVER 5 YEARS	JUNE 30 2014 TOTAL	DECEMBER 31 2013 TOTAL
Loans and receivables					
Residential mortgages	**$ 1,081,780**	**$ 4,741,333**	**$ 6,073**	**$ 5,829,186**	$ 5,527,957
Less: Collective allowance				**711**	728
				5,828,475	5,527,229
Held for trading				**502,738**	324,271
				$ 6,331,213	$ 5,851,500

The change in the collective allowance for credit losses is as follows:		
Balance, beginning of period	**$ 728**	$ 669
Recoveries	**(105)**	(113)
Provision for credit losses	**88**	172
Balance, end of period	**$ 711**	$ 728

Total impaired loans as at June 30, 2014 were $1,918 (December 31, 2013 – $1,846).

Total interest income on loans classified as loans and receivables was $85.2 million (2013 – $74.4 million). Total interest expense on obligations to securitization entities, related to securitized loans, was $62.7 million (2013 – $52.8 million). Gains realized on the sale of residential mortgages totalled $5.2 million (2013 – $12.1 million). Fair value adjustments related to mortgage banking operations totalled $(2.8) million (2013 – $10.7 million). These amounts were included in Net investment income and other. Net investment income and other also includes other mortgage banking related items including interest income on mortgages held for trading, portfolio insurance, issue costs, and other items.

4. SECURITIZATIONS

The Company securitizes residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (NHA MBS) Program and Canada Mortgage Bond (CMB) Program and through Canadian bank-sponsored asset-backed commercial paper (ABCP) programs. These transactions do not meet the requirements for derecognition as the Company retains prepayment risk and certain elements of credit risk. Accordingly, the Company has retained these mortgages on its balance sheets and has recorded an offsetting liability for the net proceeds received as Obligations to securitization entities which is carried at amortized cost.

The Company earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, the Company enters into a swap transaction whereby the Company pays coupons on CMBs and receives investment returns on the NHA MBS and the reinvestment of repaid mortgage principal. A component of this swap, related to the obligation to pay CMB coupons and receive investment returns on repaid mortgage principal, is recorded as a derivative and had a negative fair value of $24.6 million at June 30, 2014 (December 31, 2013 – $16.2 million).

Under the NHA MBS and CMB Program, the Company has an obligation to make timely payments to security holders regardless of whether amounts are received from mortgagors. All mortgages securitized under the NHA MBS and CMB Program are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, the Company has provided cash reserves for credit enhancement which are carried at cost. Credit risk is limited to these cash reserves and future net interest income as the ABCP Trusts have no recourse to the Company's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

4. SECURITIZATIONS *(continued)*

JUNE 30, 2014	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value			
NHA MBS and CMB Program	**$ 3,924,455**	**$ 4,004,507**	**$ (80,052)**
Bank sponsored ABCP	**1,872,733**	**1,911,273**	**(38,540)**
Total	**$ 5,797,188**	**$ 5,915,780**	**$ (118,592)**
Fair value	**$ 5,964,378**	**$ 6,007,772**	**$ (43,394)**

DECEMBER 31, 2013	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value			
NHA MBS and CMB Program	$ 3,802,648	$ 3,843,383	$ (40,735)
Bank sponsored ABCP	1,688,936	1,728,672	(39,736)
Total	$ 5,491,584	$ 5,572,055	$ (80,471)
Fair value	$ 5,659,082	$ 5,671,379	$ (12,297)

The carrying value of Obligations to securitization entities, which is recorded net of issue costs, includes principal payments received on securitized mortgages that are not due to be settled until after the reporting period. Issue costs are amortized over the life of the obligation on an effective interest rate basis.

5. SHARE CAPITAL

Authorized

Unlimited number of:

First preferred shares, issuable in series
Second preferred shares, issuable in series
Class 1 non-voting shares
Common shares, no par value

Issued and outstanding

	JUNE 30, 2014		JUNE 30, 2013	
	SHARES	STATED VALUE	SHARES	STATED VALUE
Perpetual preferred shares – classified as equity:				
First preferred shares, Series B	**6,000,000**	**$ 150,000**	6,000,000	$ 150,000
Common shares:				
Balance, beginning of period	**252,309,767**	**$ 1,630,844**	252,098,907	$ 1,572,573
Issued under Stock Option Plan *(Note 7)*	**498,911**	**23,828**	712,002	28,823
Purchased for cancellation	**(625,000)**	**(4,074)**	(742,300)	(4,652)
Balance, end of period	**252,183,678**	**$ 1,650,598**	252,068,609	$ 1,596,744

5. SHARE CAPITAL *(continued)*

Normal course issuer bid

In the second quarter of 2014, 315,000 shares (2013 – 318,300) were purchased at a cost of $16.4 million (2013 – $14.6 million). In the six months ended June 30, 2014, 625,000 shares (2013 – 742,300) were purchased at a cost of $33.2 million (2013 – $33.2 million). The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

The Company commenced a normal course issuer bid on April 14, 2014 which is effective until March 19, 2015. Pursuant to this bid, the Company may purchase up to 12.6 million or 5% of its common shares outstanding as at March 31, 2014. On April 12, 2013, the Company commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 12.6 million or 5% of its common shares outstanding as at March 31, 2013.

In connection with its normal course issuer bid, the Company has established an automatic securities purchase plan for its common shares. The automatic securities purchase plan provides standard instructions regarding how the Company's common shares are to be purchased under its normal course issuer bid during certain pre-determined trading blackout periods. Outside of these pre-determined trading blackout periods, purchases under the Company's normal course issuer bid will be completed based upon management's discretion.

6. CAPITAL MANAGEMENT

The capital management policies, procedures and activities of the Company are discussed in the Capital Resources section of the Company's Management's Discussion and Analysis contained in the Second Quarter 2014 Report to Shareholders and have not changed significantly since December 31, 2013.

7. SHARE-BASED PAYMENTS

Stock option plan

	JUNE 30 2014	DECEMBER 31 2013
Common share options		
– Outstanding	**7,327,234**	7,442,999
– Exercisable	**3,350,972**	2,943,693

In the second quarter of 2014, the Company did not grant options to employees (2013 – 426,745). In the six months ended June 30, 2014, the Company granted 1,024,685 options to employees (2013 – 1,385,195). The weighted average fair value of options granted during the six months ended June 30, 2014 has been estimated at $6.59 per option (2013 – $5.06) using the Black-Scholes option pricing model. The closing share price at the grant date was $54.01. The assumptions used in the valuation model include:

	SIX MONTHS ENDED JUNE 30 2014	2013
Exercise price	**$ 53.81**	$ 45.51
Risk-free interest rate	**1.90%**	1.75%
Expected option life	**6 years**	6 years
Expected volatility	**21.00%**	22.00%
Expected dividend yield	**4.00%**	4.73%

Expected volatility has been estimated based on the historic volatility of the Company's share price over six years which is reflective of the expected option life. Options vest over a period of up to 7.5 years from the grant date and are exercisable no later than 10 years after the grant date. A portion of the outstanding options can only be exercised once certain performance targets are met.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

JUNE 30, 2014		EMPLOYEE BENEFITS		AVAILABLE FOR SALE SECURITIES		INVESTMENT IN AFFILIATE AND OTHER		TOTAL
Balance, beginning of period	**$**	**(68,593)**	**$**	**420**	**$**	**(14,786)**	**$**	**(82,959)**
Other comprehensive income (loss)		**(26,552)**		**57**		**37,312**		**10,817**
Balance, end of period	**$**	**(95,145)**	**$**	**477**	**$**	**22,526**	**$**	**(72,142)**
JUNE 30, 2013								
Balance, beginning of period	$	(92,475)	$	963	$	(40,793)	$	(132,305)
Other comprehensive income (loss)		7,141		(689)		9,553		16,005
Balance, end of period	$	(85,334)	$	274	$	(31,240)	$	(116,300)

Amounts are recorded net of tax.

9. RISK MANAGEMENT

The risk management policies and procedures of the Company are discussed in the Financial Instruments Risk section of the Company's Management's Discussion and Analysis contained in the Second Quarter 2014 Report to Shareholders and have not changed significantly since December 31, 2013.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and are matters of significant judgment.

All financial instruments measured at fair value and those for which fair value is disclosed are classified into one of three levels that distinguish fair value measurements by the significance of the inputs used for valuation.

Fair value is determined based on the price that would be received for an asset or paid to transfer a liability in the most advantageous market, utilizing a hierarchy of three different valuation techniques, based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data; and

Level 3 – Unobservable inputs that are supported by little or no market activity. Valuation techniques are primarily model-based.

Markets are considered inactive when transactions are not occurring with sufficient regularity. Inactive markets may be characterized by a significant decline in the volume and level of observed trading activity or through large or erratic bid/offer spreads. In those instances where traded markets are not considered sufficiently active, fair value is measured using valuation models which may utilize predominantly observable market inputs (Level 2) or may utilize predominantly non-observable market inputs (Level 3). Management considers all reasonably available information including indicative broker quotations, any available pricing for similar instruments, recent arm's length market transactions, any relevant observable market inputs, and internal model-based estimates. Management exercises judgment in determining the most appropriate inputs and the weighting ascribed to each input as well as in the selection of valuation methodologies.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Fair value is determined using the following methods and assumptions:

Securities are valued using quoted prices from active markets, when available. When a quoted market price is not readily available, valuation techniques are used that require assumptions related to discount rates and the timing and amount of future cash flows. Wherever possible, observable market inputs are used in the valuation techniques.

Loans classified as Level 2 are valued using market interest rates for loans with similar credit risk and maturity.

Loans classified as Level 3 are valued by discounting the expected future cash flows at prevailing market yields.

Obligations to securitization entities are valued by discounting the expected future cash flows at prevailing market yields for securities issued by these securitization entities having similar terms and characteristics.

Deposits and certificates are valued by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is valued using quoted prices for each debenture available in the market.

Derivative financial instruments are valued based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or discounted cash flow analysis.

Level 1 assets include exchange-traded equity securities and open-end investment fund units in instances where there are quoted prices available from active markets.

Level 2 assets and liabilities include loans, derivative financial instruments, deposits and certificates and long-term debt. The fair value of derivative financial instruments and deposits and certificates are determined using valuation models, discounted cash flow methodologies, or similar techniques using primarily observable market inputs. The fair value of long-term debt is determined using indicative broker quotes.

Level 3 assets and liabilities include securities with little or no trading activity valued using broker-dealer quotes, loans, obligations to securitization entities and derivative financial instruments. Derivative financial instruments consist of principal reinvestment account swaps which represent the component of a swap entered into under the CMB Program whereby the Company pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. Fair value is determined by discounting the projected cashflows of the swaps. The notional amount, which is an input used to determine the fair value of the swap, is determined using an average unobservable prepayment rate of 15% which is based on historical prepayment patterns. An increase (decrease) in the assumed mortgage prepayment rate increases (decreases) the notional amount of the swap.

The following table presents the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table also excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, accounts and other receivables, certain other financial assets, accounts payable and accrued liabilities, repurchase agreements, and certain other financial liabilities.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

		FAIR VALUE			
	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
JUNE 30, 2014					
Financial assets recorded at fair value					
Securities					
– Available for sale	**$ 14,025**	**$ 14,025**	**$ –**	**$ –**	**$ 14,025**
– Held for trading	**64,486**	**62,314**	**449**	**1,723**	**64,486**
Loans					
– Held for trading	**502,738**	**–**	**502,738**	**–**	**502,738**
Derivative financial instruments	**41,212**	**–**	**39,860**	**1,352**	**41,212**
Financial assets recorded at amortized cost					
Loans					
– Loans and receivables	**5,828,475**	**–**	**32,230**	**5,964,378**	**5,996,608**
Financial liabilities recorded at fair value					
Derivative financial instruments	**31,311**	**–**	**5,391**	**25,920**	**31,311**
Financial liabilities recorded at amortized cost					
Deposits and certificates	**201,836**	**–**	**203,166**	**–**	**203,166**
Obligations to securitization entities	**5,915,780**	**–**	**–**	**6,007,772**	**6,007,772**
Long-term debt	**1,325,000**	**–**	**1,650,104**	**–**	**1,650,104**
DECEMBER 31, 2013					
Financial assets recorded at fair value					
Securities					
– Available for sale	$ 4,113	$ 4,113	$ –	$ –	$ 4,113
– Held for trading	64,622	62,216	960	1,446	64,622
Loans					
– Held for trading	324,271	–	324,271	–	324,271
Derivative financial instruments	57,351	–	48,946	8,405	57,351
Financial assets recorded at amortized cost					
Loans					
– Loans and receivables	5,527,229	–	35,958	5,659,082	5,695,040
Financial liabilities recorded at fair value					
Derivative financial instruments	35,476	–	10,908	24,568	35,476
Financial liabilities recorded at amortized cost					
Deposits and certificates	186,420	–	187,941	–	187,941
Obligations to securitization entities	5,572,055	–	–	5,671,379	5,671,379
Long-term debt	1,325,000	–	1,577,807	–	1,577,807

There were no significant transfers between Level 1 and Level 2 in 2014 and 2013.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The following table provides a summary of changes in Level 3 assets and liabilities measured at fair value on a recurring basis.

	BALANCE JANUARY 1	GAINS/ (LOSSES) INCLUDED IN NET EARNINGS[1]	PURCHASES AND ISSUANCES	SETTLEMENTS	TRANSFERS IN/OUT	BALANCE JUNE 30
JUNE 30, 2014						
Assets						
Securities						
– Held for trading	**$ 1,446**	**$ 187**	**$ 138**	**$ 48**	**$ –**	**$ 1,723**
Liabilities						
Derivative financial instruments, net	**16,163**	**(18,967)**	**(970)**	**9,592**	**–**	**24,568**
JUNE 30, 2013						
Assets						
Securities						
– Held for trading	$ 840	$ (78)	$ 100	$ –	$ –	$ 862
Liabilities						
Derivative financial instruments, net	56,245	22,125	(1,386)	8,924	–	23,810

(1) Included in Net investment income and other in the Consolidated Statements of Earnings.

11. EARNINGS PER COMMON SHARE

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	**2014**	2013
Earnings				
Net earnings	**$ 192,463**	$ 193,078	**$ 389,124**	$ 375,802
Perpetual preferred share dividends	**2,212**	2,212	**4,425**	4,425
Net earnings available to common shareholders	**$ 190,251**	$ 190,866	**$ 384,699**	$ 371,377
Number of common shares *(in thousands)*				
Average number of common shares outstanding				
Add:	**252,286**	251,935	**252,327**	251,953
– Potential exercise of outstanding stock options	**840**	516	**934**	465
Average number of common shares outstanding – diluted basis	**253,126**	252,451	**253,261**	252,418
Earnings per common share *(in dollars)*				
– Basic	**$ 0.75**	$ 0.76	**$ 1.52**	$ 1.47
– Diluted	**$ 0.75**	$ 0.76	**$ 1.52**	$ 1.47

12. SEGMENTED INFORMATION

The Company's reportable segments are:

- Investors Group
- Mackenzie
- Corporate and Other

These segments reflect the current organizational structure and internal financial reporting. Management measures and evaluates the performance of these segments based on earnings before interest and taxes.

Investors Group earns fee-based revenues in the conduct of its core business activities which are primarily related to the distribution, management and administration of its investment funds. It also earns fee revenues from the provision of brokerage services and the distribution of insurance and banking products. In addition, Investors Group earns intermediary revenues primarily from mortgage banking and servicing activities and from the assets funded by deposit and certificate products.

Mackenzie earns fee-based revenues from services it provides as fund manager to its investment funds and as investment advisor to sub-advisory and institutional accounts.

Corporate and Other includes Investment Planning Counsel, equity income from its investment in Great-West Lifeco Inc. (Lifeco), net investment income on unallocated investments, other income, and also includes consolidation elimination entries.

				2014
Three months ended June 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	$ 312,021	$ 177,836	$ 14,030	$ 503,887
Administration fees	69,359	26,580	3,370	99,309
Distribution fees	44,214	2,760	39,139	86,113
Net investment income and other	5,913	350	26,215	32,478
	431,507	207,526	82,754	721,787
Expenses				
Commission	132,865	74,812	38,022	245,699
Non-commission	113,509	66,859	14,040	194,408
	246,374	141,671	52,062	440,107
Earnings before undernoted	$ 185,133	$ 65,855	$ 30,692	281,680
Interest expense				(22,964)
Restructuring and other charges				(18,316)
Earnings before income taxes				240,400
Income taxes				47,937
Net earnings				192,463
Perpetual preferred share dividends				2,212
Net earnings available to common shareholders				$ 190,251

12. SEGMENTED INFORMATION *(continued)*

				2013
Three months ended June 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	$ 275,378	$ 164,882	$ 11,696	$ 451,956
Administration fees	59,158	25,899	2,802	87,859
Distribution fees	47,357	3,444	28,953	79,754
Net investment income and other	19,649	1,012	26,723	47,384
	401,542	195,237	70,174	666,953
Expenses				
Commission	123,537	66,900	28,562	218,999
Non-commission	102,938	67,907	11,792	182,637
	226,475	134,807	40,354	401,636
Earnings before undernoted	$ 175,067	$ 60,430	$ 29,820	265,317
Interest expense				22,963
Earnings before income taxes				242,354
Income taxes				49,276
Net earnings				193,078
Perpetual preferred share dividends				2,212
Net earnings available to common shareholders				$ 190,866

12. SEGMENTED INFORMATION *(continued)*

				2014
Six months ended June 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Revenues				
Management fees	$ 612,703	$ 349,556	$ 27,394	$ 989,653
Administration fees	135,368	52,625	6,539	194,532
Distribution fees	92,709	5,974	79,841	178,524
Net investment income and other	19,156	1,709	53,059	73,924
	859,936	409,864	166,833	1,436,633
Expenses				
Commission	263,322	148,592	76,954	488,868
Non-commission	223,452	137,659	29,074	390,185
	486,774	286,251	106,028	879,053
Earnings before undernoted	$ 373,162	$ 123,613	$ 60,805	557,580
Interest expense				(45,713)
Restructuring and other charges				(18,316)
Earnings before income taxes				493,551
Income taxes				104,427
Net earnings				389,124
Perpetual preferred share dividends				4,425
Net earnings available to common shareholders				$ 384,699
Identifiable assets	$ 7,506,339	$ 1,349,614	$ 1,864,032	$10,719,985
Goodwill	1,347,781	1,168,580	140,178	2,656,539
Total assets	$ 8,854,120	$ 2,518,194	$ 2,004,210	$13,376,524

12. SEGMENTED INFORMATION *(continued)*

Six months ended June 30	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
				2013
Revenues				
Management fees	$ 545,519	$ 326,203	$ 23,104	$ 894,826
Administration fees	116,713	51,281	5,450	173,444
Distribution fees	93,829	7,239	60,131	161,199
Net investment income and other	38,077	2,706	49,399	90,182
	794,138	387,429	138,084	1,319,651
Expenses				
Commission	244,621	133,466	58,941	437,028
Non-commission	202,235	134,549	23,751	360,535
	446,856	268,015	82,692	797,563
Earnings before undernoted	$ 347,282	$ 119,414	$ 55,392	522,088
Interest expense				45,712
Earnings before income taxes				476,376
Income taxes				100,574
Net earnings				375,802
Perpetual preferred share dividends				4,425
Net earnings available to common shareholders				$ 371,377
Identifiable assets	$ 6,611,515	$ 1,330,627	$ 1,811,037	$ 9,753,179
Goodwill	1,347,781	1,168,580	122,593	2,638,954
Total assets	$ 7,959,296	$ 2,499,207	$ 1,933,630	$ 12,392,133