CONSOLIDATED BALANCE SHEETS

[IN MILLIONS OF CANADIAN DOLLARS]	DECEMBER 31, 2013	DECEMBER 31, 2012 [RESTATED – NOTE 3]	JANUARY 1, 2012 [RESTATED – NOTE 3]
ASSETS			
Cash and cash equivalents [Note 5]	4,344	3,313	3,385
Investments [Note 6]			
Bonds	90,329	83,391	79,002
Mortgages and other loans	24,915	22,797	21,518
Shares	8,046	6,761	6,360
Investment properties	4,288	3,572	3,249
Loans to policyholders	7,332	7,082	7,162
	134,910	123,603	117,291
Funds held by ceding insurers [Note 7]	10,832	10,599	9,978
Reinsurance assets [Note 13]	5,070	2,064	2,061
Investments in jointly controlled corporations and associate [Note 8]	2,664	2,121	2,205
Owner-occupied properties and capital assets [Note 9]	925	791	738
Derivative financial instruments [Note 27]	654	1,060	1,056
Other assets [Note 10]	5,907	4,774	4,281
Deferred tax assets [Note 18]	1,240	1,223	1,230
Intangible assets [Note 11]	5,281	4,933	5,023
Goodwill [Note 11]	9,105	8,673	8,786
Investments on account of segregated fund policyholders [Note 12]	160,779	105,432	96,985
Total assets	341,711	268,586	253,019
LIABILITIES			
Insurance contract liabilities [Note 13]	131,174	119,973	114,785
Investment contract liabilities [Note 13]	889	739	782
Obligation to securitization entities [Note 14]	5,572	4,701	3,827
Debentures and debt instruments [Note 15]	7,275	5,817	5,849
Capital trust debentures [Note 16]	163	164	815
Derivative financial instruments [Note 27]	779	413	427
Other liabilities [Note 17]	6,898	6,664	6,088
Deferred tax liabilities [Note 18]	1,079	1,018	1,120
Insurance and investment contracts on account of segregated fund policyholders [Note 12]	160,779	105,432	96,985
Total liabilities	314,608	244,921	230,678
EQUITY			
Stated capital [Note 19]			
Perpetual preferred shares	2,755	2,255	2,005
Common shares	721	664	639
Retained earnings	12,204	11,201	10,804
Reserves	433	(557)	(238)
Total shareholders' equity	16,113	13,563	13,210
Non-controlling interests [Note 21]	10,990	10,102	9,131
Total equity	27,103	23,665	22,341
Total liabilities and equity	341,711	268,586	253,019

Approved by the Board of Directors

Signed,
Raymond Royer
Director

Signed,
R. Jeffrey Orr
Director

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS]	2013	2012 [RESTATED – NOTE 3]
REVENUES		
Premium income		
Gross premiums written	23,441	22,276
Ceded premiums	(3,205)	(3,019)
Total net premiums	20,236	19,257
Net investment income [Note 6]		
Regular net investment income	5,635	5,700
Change in fair value through profit and loss	(2,974)	2,675
	2,661	8,375
Fee income	5,933	5,302
Total revenues	28,830	32,934
EXPENSES		
Policyholder benefits		
Insurance and investment contracts		
Gross	18,464	17,854
Ceded	(1,744)	(1,457)
	16,720	16,397
Policyholder dividends and experience refunds	1,371	1,437
Change in insurance and investment contract liabilities	(280)	5,041
Total paid or credited to policyholders	17,811	22,875
Commissions	2,590	2,487
Operating and administrative expenses [Note 24]	4,474	3,806
Financing charges [Note 25]	400	409
Total expenses	25,275	29,577
	3,555	3,357
Share of earnings of investments in jointly controlled corporations and associate [Note 8]	134	130
Earnings before income taxes	3,689	3,487
Income taxes [Note 18]	678	559
Net earnings	3,011	2,928
Attributable to		
Non-controlling interests [Note 21]	984	1,193
Perpetual preferred shareholders	131	117
Common shareholders	1,896	1,618
	3,011	2,928
Earnings per common share [Note 30]		
Net earnings attributable to common shareholders		
– Basic	2.67	2.29
– Diluted	2.63	2.27

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2013	2012 [RESTATED – NOTE 3]
Net earnings	3,011	2,928
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net earnings		
Net unrealized gains (losses) on available-for-sale assets		
Unrealized gains (losses)	(156)	85
Income tax (expense) benefit	35	(25)
Realized (gains) losses transferred to net earnings	(70)	(126)
Income tax expense (benefit)	15	31
	(176)	(35)
Net unrealized gains (losses) on cash flow hedges		
Unrealized gains (losses)	(85)	14
Income tax (expense) benefit	33	(5)
Realized (gains) losses transferred to net earnings	2	2
Income tax expense (benefit)	(1)	(1)
	(51)	10
Net unrealized foreign exchange gains (losses) on translation of foreign operations		
Unrealized gains (losses) on translation arising during the year	858	(78)
Unrealized gains (losses) on euro debt designated as hedge of net assets of foreign operations	(52)	–
	806	(78)
Share of other comprehensive income (losses) of jointly controlled corporations and associate	251	(100)
Total – items that may be reclassified	830	(203)
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (losses) on defined benefit pension plans	633	(297)
Income tax (expense) benefit	(174)	83
Share of other comprehensive income (losses) of jointly controlled corporations and associate	23	(7)
Total – items that will not be reclassified	482	(221)
Other comprehensive income (loss)	1,312	(424)
Total comprehensive income	4,323	2,504
Attributable to		
Non-controlling interests	1,298	1,087
Perpetual preferred shareholders	131	117
Common shareholders	2,894	1,300
	4,323	2,504

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2013 [IN MILLIONS OF CANADIAN DOLLARS]	STATED CAPITAL			RESERVES				
	PERPETUAL PREFERRED SHARES	COMMON SHARES	RETAINED EARNINGS	SHARE-BASED COMPENSATION	OTHER COMPREHENSIVE INCOME [NOTE 29]	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance, beginning of year								
As previously reported	2,255	664	11,148	110	(148)	(38)	10,343	24,372
Changes in accounting policy [Note 3]	–	–	53	–	(519)	(519)	(241)	(707)
As restated	2,255	664	11,201	110	(667)	(557)	10,102	23,665
Net earnings	–	–	2,027	–	–	–	984	3,011
Other comprehensive income	–	–	–	–	998	998	314	1,312
Total comprehensive income	–	–	2,027	–	998	998	1,298	4,323
Issue of perpetual preferred shares	500	–	–	–	–	–	–	500
Dividends to shareholders								
Common shares	–	–	(996)	–	–	–	–	(996)
Perpetual preferred shares	–	–	(131)	–	–	–	–	(131)
Dividends to non-controlling interests	–	–	–	–	–	–	(685)	(685)
Share-based compensation	–	–	–	11	–	11	4	15
Stock options exercised	–	57	–	(26)	–	(26)	(6)	25
Effects of changes in ownership, capital and other	–	–	103	–	7	7	277	387
Balance, end of year	2,755	721	12,204	95	338	433	10,990	27,103

FOR THE YEAR ENDED DECEMBER 31, 2012 (RESTATED – NOTE 3) [IN MILLIONS OF CANADIAN DOLLARS]	STATED CAPITAL			RESERVES				
	PERPETUAL PREFERRED SHARES	COMMON SHARES	RETAINED EARNINGS	SHARE-BASED COMPENSATION	OTHER COMPREHENSIVE INCOME [NOTE 29]	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance, beginning of year								
As previously reported	2,005	639	10,743	111	23	134	9,294	22,815
Changes in accounting policy [Note 3]	–	–	61	–	(372)	(372)	(163)	(474)
As restated	2,005	639	10,804	111	(349)	(238)	9,131	22,341
Net earnings	–	–	1,735	–	–	–	1,193	2,928
Other comprehensive income	–	–	–	–	(318)	(318)	(106)	(424)
Total comprehensive income	–	–	1,735	–	(318)	(318)	1,087	2,504
Issue of perpetual preferred shares	250	–	–	–	–	–	–	250
Dividends to shareholders								
Common shares	–	–	(992)	–	–	–	–	(992)
Perpetual preferred shares	–	–	(117)	–	–	–	–	(117)
Dividends to non-controlling interests	–	–	–	–	–	–	(659)	(659)
Share-based compensation	–	–	–	9	–	9	4	13
Stock options exercised	–	25	–	(10)	–	(10)	(3)	12
Effects of changes in ownership, capital and other	–	–	(229)	–	–	–	542	313
Balance, end of year	2,255	664	11,201	110	(667)	(557)	10,102	23,665

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS]	2013	2012 [RESTATED – NOTE 3]
OPERATING ACTIVITIES		
Earnings before income taxes	3,689	3,487
Income tax paid, net of refunds received	(426)	(414)
Adjusting items		
Change in insurance and investment contract liabilities	(567)	5,034
Change in funds held by ceding insurers	269	196
Change in funds held under reinsurance contracts	(99)	203
Change in reinsurance assets	321	42
Change in fair value through profit or loss	2,974	(2,675)
Other	(510)	(504)
	5,651	5,369
FINANCING ACTIVITIES		
Dividends paid		
By subsidiaries to non-controlling interests	(685)	(659)
Perpetual preferred shares	(128)	(114)
Common shares	(995)	(991)
	(1,808)	(1,764)
Issue of common shares by the Corporation [Note 19]	45	20
Issue of perpetual preferred shares by the Corporation [Note 19]	500	250
Issue of common shares by subsidiaries	742	44
Issue of preferred shares by subsidiaries	–	650
Repurchase of common shares by subsidiaries	(122)	(215)
Repurchase of preferred shares by subsidiaries	(230)	–
Changes in debt instruments	183	(1)
Issue of euro-denominated debt [Note 4]	659	–
Change in obligations related to assets sold under repurchase agreements	(225)	(2)
Change in obligations to securitization entities	873	874
Redemption of capital trust debentures	–	(409)
Other	1	(8)
	618	(561)
INVESTMENT ACTIVITIES		
Bond sales and maturities	28,776	24,516
Mortgage loan repayments	1,910	2,071
Sale of shares	2,158	2,152
Change in loans to policyholders	70	(57)
Change in repurchase agreements	–	(23)
Acquisition of Irish Life Group Limited, net of cash and cash equivalents acquired [Note 4]	(1,234)	–
Investment in bonds	(31,252)	(27,716)
Investment in mortgage loans	(3,541)	(3,394)
Investment in shares	(2,048)	(2,162)
Investment in investment properties and other	(267)	(259)
	(5,428)	(4,872)
Effect of changes in exchange rates on cash and cash equivalents	190	(8)
Increase (decrease) in cash and cash equivalents	1,031	(72)
Cash and cash equivalents, beginning of year	3,313	3,385
Cash and cash equivalents, end of year	4,344	3,313
NET CASH FROM OPERATING ACTIVITIES INCLUDES		
Interest and dividends received	4,965	5,062
Interest paid	490	492

NOTE 1 CORPORATE INFORMATION

Power Financial Corporation (Power Financial or the Corporation) is a publicly listed company (TSX: PWF) incorporated and domiciled in Canada. The registered address of the Corporation is 751 Victoria Square, Montréal, Québec, Canada, H2Y 2J3.

Power Financial is a diversified international management and holding company that holds interests, directly or indirectly, in companies in the financial services industry in Canada, the United States and Europe and, through its indirect investment in Pargesa, a holding company with diversified interests in Europe-based companies active in various sectors: minerals-based specialties for industry; cement aggregates concrete; oil, gas and alternative energies; electricity, natural gas, and energy and environmental services; water and waste management services; wines and spirits; and testing, inspection and certification.

The Consolidated Financial Statements (financial statements) of Power Financial for the year ended December 31, 2013 were approved by the Board of Directors on March 19, 2014. The Corporation is controlled by 171263 Canada Inc., which is wholly owned by Power Corporation of Canada.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Power Financial at December 31, 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS).

BASIS OF PRESENTATION

The financial statements include the accounts of Power Financial and all its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Corporation controls which means that the Corporation has power over the entity, it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its use of power over the entity. Subsidiaries of the Corporation are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. The Corporation will reassess whether or not it controls an entity if facts and circumstances indicate there are changes to one or more of the elements of control listed above.

The principal subsidiaries of the Corporation, whose accounts are included on a consolidated basis, are:

> Great-West Lifeco Inc., a public company (direct interest of 67.0% (2012 – 68.2%)), whose major operating subsidiary companies are The Great-West Life Assurance Company, Great-West Life & Annuity Insurance Company, London Life Insurance Company, The Canada Life Assurance Company, Irish Life Group Limited and Putnam Investments, LLC.

> IGM Financial Inc., a public company (direct interest of 58.6% (2012 – 58.7%)), whose major operating subsidiary companies are Investors Group Inc. and Mackenzie Financial Corporation.

> The Great-West Life Assurance Company holds 3.6% (2012 – 3.7%) of the common shares of IGM Financial Inc., and IGM Financial Inc. holds 4.0% (2012 – 4.0%) of the common shares of Great-West Lifeco Inc.

These financial statements include the results of Great-West Lifeco Inc. and IGM Financial Inc. on a consolidated basis; the amounts shown in the consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are from the publicly disclosed consolidated financial statements of Great-West Lifeco Inc. and IGM Financial Inc., both as at and for the year ended December 31, 2013, and the comparative year. The notes to Power Financial's financial statements are prepared using the notes to the financial statements of Great-West Lifeco Inc. and IGM Financial Inc.

Jointly controlled corporations are entities in which unanimous consent is required relating to decisions about the relevant activities. Associate is an entity in which the Corporation exercises significant influence over the entity's operating and financial policies, without exercising control or joint control. Investments in jointly controlled corporations and associate are accounted for using the equity method. Under the equity method, the share of net earnings, other comprehensive income and the changes in equity of the jointly controlled corporations and associate are recognized in the statements of earnings, statements of comprehensive income and statements of changes in equity, respectively.

The Corporation holds a 50% (2012 – 50%) interest in Parjointco N.V., a jointly controlled corporation that is considered to be a joint venture. Parjointco holds a 55.6% (2012 – 55.6%) equity interest in Pargesa Holding SA. Accordingly, the Corporation accounts for its investment in Parjointco using the equity method.

The following abbreviations are used throughout this report: Great-West Life & Annuity Insurance Company (Great-West Financial or Great-West Life & Annuity); Great-West Lifeco Inc. (Lifeco); IGM Financial Inc. (IGM); Investors Group Inc. (Investors Group); Irish Life Group Limited (Irish Life); London Life Insurance Company (London Life); Mackenzie Financial Corporation (Mackenzie); Pargesa Holding SA (Pargesa); Parjointco N.V. (Parjointco); Putnam Investments, LLC (Putnam); The Canada Life Assurance Company (Canada Life); The Great-West Life Assurance Company (Great-West Life); International Financial Reporting Standards (IFRS).

USE OF SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the preparation of the financial statements, management of the Corporation and its subsidiaries are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Significant judgments have been made and key sources of estimation uncertainty have been made in certain areas and, are discussed throughout the notes in these financial statements, including:

> The actuarial assumptions made by Lifeco, such as mortality and morbidity of policyholders, used in the valuation of insurance and investment contract liabilities under the Canadian Asset Liability Method (Note 13).

> In the determination of the fair value of financial instruments, management of the Corporation and its subsidiaries exercise judgment in the fair value inputs, particularly those items categorized within Level 3 of the fair value hierarchy (Note 28).

> Management consolidates all subsidiaries and entities which it is determined that the Corporation controls. Control is evaluated according to the ability of the Corporation to direct the activities of the subsidiary or other structured entities in order to derive variable returns. Management applies judgment to determine if it has control of the investee when it has less than a majority of the voting rights.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

> The carrying value of goodwill and intangible assets is based upon the use of forecasts and future results upon initial recognition. Management of the Corporation and its subsidiaries evaluate the synergies and future benefit for recognition of goodwill and intangible assets (Note 11).

> Cash generating units for goodwill have been determined by management of the Corporation and its subsidiaries as the lowest level in which goodwill is monitored for internal reporting purposes (Note 11).

> The actuarial assumptions used in determining the expense for pension plans and other post-employment benefits. Management of the Corporation and its subsidiaries review the previous experience of their plan members in evaluating the assumptions used in determining the expense for the current year (Note 26).

> The Corporation and its subsidiaries operate within various tax jurisdictions where significant judgments and estimates are required when interpreting the relevant tax laws, regulations and legislation in the determination of the Corporation's and its subsidiaries tax provisions and the carrying amounts of its tax assets and liabilities (Note 18).

> The determination by IGM of whether financial assets are derecognized is based on the extent to which the risk and rewards of ownership are transferred (Note 14).

> Legal and other provisions are recognized resulting from a past event which, in the judgment of management of the Corporation and its subsidiaries, has resulted in a probable outflow of economic resources which would be passed onto a third party to settle the obligation. Management of the Corporation and its subsidiaries evaluate the possible outcomes and risks in determining the best estimate of the provision at the balance sheet date (Note 31).

> Lifeco uses judgments, estimates and independent, qualified appraisal services to adjust for material changes in property cash flows, capital expenditures or general market conditions in determining the fair value of investment properties (Note 6).

> The estimated useful lives of deferred selling commissions made by IGM (Note 11).

> Judgments are used by Lifeco in determining whether deferred acquisition costs and deferred income reserves can be recognized on the consolidated balance sheets. Deferred acquisition costs are recognized if Lifeco's management determines the costs are incremental and related to the issuance of the investment contract. Deferred income reserves are amortized on a straight-line basis over the term of the policy.

The results reflect judgments of management of the Corporation and its subsidiaries regarding the impact of prevailing global credit, equity and foreign exchange market conditions.

REVENUE RECOGNITION

Interest income is accounted for on an accrual basis using the effective interest method for bonds, mortgages and loans. Dividend income is recognized when the right to receive payment is established. This is the dividend date for listed stocks and usually the notification date or date when the shareholders have approved the dividend for private equity instruments. Interest income and dividend income are recorded in net investment income in the Consolidated Statements of Earnings (statements of earnings).

LIFECO

Premiums for all types of insurance contracts and contracts with limited mortality or morbidity risk are generally recognized as revenue when due and collection is reasonably assured.

Investment property income includes rents earned from tenants under lease agreements and property tax and operating cost recoveries. Rental income leases with contractual rent increases and rent-free periods are recognized on a straight-line basis over the term of the lease.

Fee income primarily includes fees earned from the management by Lifeco of segregated fund assets, proprietary mutual fund assets, fees earned on administrative services only Group health contracts and fees earned from management services. Fee income is recognized when the service is performed, the amount is collectible and can be reasonably estimated.

Lifeco has sub-advisor arrangements where Lifeco retains the primary obligation with the client. As a result, fee income earned is reported on a gross basis, with the corresponding sub-advisor expense recorded in operating and administrative expenses.

IGM FINANCIAL

Management fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis as the service is performed. Administration fees are also recognized on an accrual basis as the service is performed. Distribution fees derived from mutual fund and securities transactions are recognized on a trade-date basis. Distribution fees derived from insurance and other financial services transactions are recognized on an accrual basis. These management, administration and distribution fees are included in fee income in the statements of earnings.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, current operating accounts, overnight bank and term deposits with original maturities of three months or less, and fixed income securities with an original term to maturity of three months or less.

INVESTMENTS

Investments include bonds, mortgages and other loans, shares, investment properties, and loans to policyholders of Lifeco. Investments are classified as either fair value through profit or loss, available for sale, held to maturity, loans and receivables, based on management's intention relating to the purpose and nature for which the instruments were acquired or the characteristics of the investments. The Corporation and its subsidiaries currently have not classified any investments as held to maturity.

Investments in bonds and shares normally actively traded on a public market are either designated or classified as fair value through profit or loss or classified as available for sale and are recorded on a trade-date basis. Fixed income securities are included in bonds on the Consolidated Balance Sheets (balance sheets). Fair value through profit or loss investments are recognized at fair value on the balance sheets with realized and unrealized gains and losses reported in the statements of earnings. Available-for-sale investments are recognized at fair value on the balance sheets with unrealized gains and losses recorded in other comprehensive income. Gains and losses are reclassified from other comprehensive income and recorded in the statements of earnings when the available-for-sale investment is sold or impaired. Interest income earned on both fair value through profit or loss and available-for-sale bonds is recorded as net investment income in the statements of earnings.

Investments in mortgages and other loans, and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in net investment income in the statements of earnings.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties are real estate held to earn rental income or for capital appreciation. Investment properties are initially measured at cost and subsequently carried at fair value on the balance sheets. All changes in fair value are recorded as net investment income in the statements of earnings. Fair values for investment properties are determined using independent, qualified appraisal services. Properties held to earn rental income or for capital appreciation that have an insignificant portion that is owner occupied or where there is no intent to occupy on a long-term basis are classified as investment properties. Properties that do not meet these criteria are classified as owner-occupied properties. Property that is leased that would otherwise be classified as investment property if owned is also included with investment properties.

Loans to policyholders by Lifeco and its subsidiaries are shown at their unpaid principal balance and are fully secured by the cash surrender values of the policies. The carrying value of loans to policyholders approximates fair value.

Fair value measurement Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Corporation and its subsidiaries rely upon. The following is a description of the methodologies used to determine fair value.

Bonds at fair value through profit or loss and available for sale Fair values for bonds classified as fair value through profit or loss or available for sale are determined with reference to quoted market bid prices primarily provided by third-party independent pricing sources. The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Corporation obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure bonds at fair value in its fair value through profit or loss and available-for-sale portfolios. Where prices are not quoted in a normally active market, fair values are determined by valuation models.

The Corporation and its subsidiaries estimate the fair value of bonds not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Shares at fair value through profit or loss and available for sale Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for shares for which there is no active market are determined by discounting expected future cash flows. The Corporation and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation obtains quoted prices in active markets, when available, for identical assets at the balance sheets dates to measure shares at fair value in its fair value through profit or loss and available-for-sale portfolios.

Mortgages and other loans, and Bonds classified at fair value through profit or loss and loans and receivables Fair values for mortgages and other loans designated at fair value through profit or loss are valued using market interest rates for loans with similar credit risk and maturity. For disclosure purposes only, fair values for bonds, and mortgages and other loans, classified as loans and receivables, are determined by discounting expected future cash flows using current market rates. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activity.

Investment properties Fair values for investment properties are determined using independent qualified appraisal services and include adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. The determination of the fair value of investment property requires the use of estimates including 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 conditions. Investment properties under construction are valued at fair value if such values can be reliably determined; otherwise, they are recorded at cost.

Impairment Investments are reviewed regularly on an individual basis to determine impairment status. The Corporation and its subsidiaries consider various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults, and delinquency in payments of interest or principal. Impairment losses on available-for-sale shares are recorded if the loss is significant or prolonged and subsequent losses are recorded in net earnings.

Investments are deemed to be impaired when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due. The fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors, including the remaining term to maturity and liquidity of the asset. However, market price is taken into consideration when evaluating impairment.

For impaired mortgages and other loans, and bonds classified as loans and receivables, provisions are established or impairments recorded to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available-for-sale bonds, recorded at fair value, the accumulated loss recorded in the investment revaluation reserves is reclassified to net investment income. Impairments on available-for-sale debt instruments are reversed if there is objective evidence that a permanent recovery has occurred. All gains and losses on bonds classified or designated as fair value through profit or loss are already recorded in net earnings, therefore, a reduction due to impairment of these assets will be recorded in net earnings. As well, when determined to be impaired, contractual interest is no longer accrued and previous interest accruals are reversed.

Fair value movement on the assets supporting insurance contract liabilities is a major factor in the movement of insurance contract liabilities. Changes in the fair value of bonds designated or classified as fair value through profit or loss that support insurance contract liabilities are largely offset by corresponding changes in the fair value of liabilities, except when the bond has been deemed impaired.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TRANSACTION COSTS

Transaction costs are expensed as incurred for financial instruments classified or designated as fair value through profit or loss. Transaction costs for financial assets classified as available for sale or loans and receivables are added to the value of the instrument at acquisition, and taken into net earnings using the effective interest method for those allocated to loans and receivables. Transaction costs for financial liabilities classified as other than fair value through profit or loss are deducted from the value of the instrument issued and taken into net earnings using the effective interest method.

FUNDS HELD BY CEDING INSURERS / FUNDS HELD UNDER REINSURANCE CONTRACTS

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. Lifeco records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited by the ceding insurer.

REINSURANCE CONTRACTS

Lifeco, in the normal course of business, is both a user and a provider of reinsurance in order to limit the potential for losses arising from certain exposures. Assumed reinsurance refers to the acceptance of certain insurance risks by Lifeco underwritten by another company. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who will share the risks. To the extent that assuming reinsurers for Lifeco insurance risks are unable to meet their obligations, Lifeco remains liable to its policyholders for the portion reinsured. Consequently, allowances are made for reinsurance contracts which are deemed uncollectible.

Assumed reinsurance premiums, commissions and claim settlements, as well as the reinsurance assets associated with insurance and investment contracts, are accounted for in accordance with the terms and conditions of the underlying reinsurance contract. Reinsurance assets are reviewed for impairment on a regular basis for any events that may trigger impairment. Lifeco considers various factors in the impairment evaluation process, including, but not limited to, collectability of amounts due under the terms of the contract. The carrying amount of a reinsurance asset is adjusted through an allowance account with any impairment loss being recorded in the statements of earnings.

Any gains or losses on buying reinsurance are recognized in the statement of earnings immediately at the date of purchase and are not amortized.

Premiums and claims ceded for reinsurance are deducted from premiums earned and insurance and investment contract benefits. Assets and liabilities related to reinsurance are reported on a gross basis in the balance sheets. The amount of liabilities ceded to reinsurers is estimated in a manner consistent with the claim liability associated with reinsured risks.

OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

Capital assets and property held for own use are carried at cost less accumulated depreciation and impairments. Depreciation is charged to write off the cost of assets, using the straight-line method, over their estimated useful lives, which vary from 3 to 50 years.

> Building, owner-occupied properties	10–50 years
> Equipment, furniture and fixtures	3–17 years
> Other capital assets	3–10 years

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if necessary. Capital assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS

Business combinations are accounted for using the acquisition method. Goodwill represents the excess of purchase consideration over the fair value of net assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets comprise finite life and indefinite life intangible assets. Finite life intangible assets include the value of software acquired or internally developed, some customer contracts, distribution channels, distribution contracts, deferred selling commissions, technology and property leases. Finite life intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 30 years.

Commissions paid by IGM on the sale of certain mutual funds are deferred and amortized over their estimated useful lives, not exceeding a period of seven years. Commissions paid on the sale of deposits are deferred and amortized over their estimated useful lives, not exceeding a period of five years. When a client redeems units in mutual funds that are subject to a deferred sales charge, a redemption fee is paid by the client and is recorded as revenue by IGM. Any unamortized deferred selling commission asset recognized on the initial sale of these mutual fund units is recorded as a disposal. IGM regularly reviews the carrying value of deferred selling commissions with respect to any events or circumstances that indicate impairment. Among the tests performed by IGM to assess recoverability is the comparison of the future economic benefits derived from the deferred selling commission asset in relation to its carrying value.

Indefinite life intangible assets include brands, trademarks and trade names, some customer contracts, the shareholders' portion of acquired future participating account profits and mutual fund management contracts. Amounts are classified as indefinite life intangible assets when based on an analysis of all the relevant factors, and when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. The identification of indefinite life intangible assets is made by reference to relevant factors such as product life cycles, potential obsolescence, industry stability and competitive position.

Impairment testing Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if events indicate that impairment may have occurred. Intangible assets that were previously impaired are reviewed at each reporting date for evidence of reversal. In the event that certain conditions have been met, the Corporation would be required to reverse the impairment charge or a portion thereof.

Goodwill has been allocated to groups of cash generating units (CGU), representing the lowest level in which goodwill is monitored for internal reporting purposes. Goodwill is tested for impairment by comparing the carrying value of the groups of CGU to the recoverable amount to which the goodwill has been allocated. Intangible assets are tested for impairment by comparing the asset's carrying amount to its recoverable amount.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell or value in use, which is calculated using the present value of estimated future cash flows expected to be generated.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SEGREGATED FUNDS

Segregated fund assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by policyholders and are presented separately in the balance sheets at fair value. Investment income and changes in fair value of the segregated fund assets are offset by corresponding changes in the segregated fund liabilities.

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Contract classification Lifeco's products are classified at contract inception as insurance contracts or investment contracts, depending on the existence of significant insurance risk. Significant insurance risk exists when Lifeco agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown.

When significant insurance risk exists, the contract is accounted for as an insurance contract in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Refer to Note 13 for a discussion of insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Lifeco has not classified any contracts as investment contracts with discretionary participating features.

Investment contracts may be reclassified as insurance contracts after inception if insurance risk becomes significant. A contract that is classified as an insurance contract at contract inception remains as such until all rights and obligations under the contract are extinguished or expire.

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to Note 23 for a discussion on risk management.

Measurement Insurance contract liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the liabilities to make appropriate provisions for Lifeco's obligations to policyholders. The Appointed Actuaries determine the liabilities for insurance and investment contracts using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

Insurance contract liabilities are computed with the result that benefits and expenses are matched with premium income. Under fair value accounting, a movement in the fair value of the supporting assets is a major factor in the movement of insurance contract liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities.

Investment contract liabilities are measured at fair value through profit and loss, except for certain annuity products measured at amortized cost.

DERECOGNITION

IGM enters into transactions where it transfers financial assets recognized on its balance sheets. The determination of whether the financial assets are derecognized is based on the extent to which the risks and rewards of ownership are transferred.

If substantially all of the risks and rewards of a financial asset are not retained, IGM derecognizes the financial asset. The gains or losses and the servicing fee revenue for financial assets that are derecognized are reported in net investment income in the statements of earnings.

If all or substantially all risks and rewards are retained, the financial assets are not derecognized and the transactions are accounted for as secured financing transactions.

OTHER FINANCIAL LIABILITIES

Accounts payable, current income taxes, and deferred income reserves, are measured at amortized cost. Deferred income reserves are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not to exceed 20 years.

Debentures and debt instruments, and capital trust debentures are initially recorded on the balance sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in the statements of earnings. These liabilities are derecognized when the obligation is cancelled or redeemed.

REPURCHASE AGREEMENTS

Lifeco enters into repurchase agreements with third-party broker-dealers in which Lifeco sells securities and agrees to repurchase substantially similar securities at a specified date and price. As substantially all of the risks and rewards of ownership of assets are retained, Lifeco does not derecognize the assets. Such agreements are accounted for as investment financings.

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors, unfunded supplementary employee retirement plans for certain employees, and unfunded post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependants. The Corporation's subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings.

The cost of the defined benefit plans earned by eligible employees and advisors is actuarially determined using the projected unit credit method prorated on service, based upon management of the Corporation and its subsidiaries' assumptions about discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. Any changes in these assumptions will impact the carrying amount of pension obligations. The Corporation and its subsidiaries' accrued benefit liability in respect of defined benefit plans is calculated separately for each plan by discounting the amount of the benefit that employees have earned in return for their service in current and prior periods and deducting the fair value of any plan assets. The Corporation and its subsidiaries determine the net interest component of the pension expense for the period by applying the discount rate used to measure the accrued benefit liability at the beginning of the annual period to the net accrued benefit liability. The discount rate used to value liabilities is determined using a yield curve of AA corporate debt securities.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the plan benefits are changed, or a plan is curtailed, any past service costs or curtailment gains or losses are recognized immediately in net earnings. Current service costs, past service costs and curtailment gains or losses are included in operating and administrative expenses.

Remeasurements arising from defined benefit plans represent actuarial gains and losses and the actual return on plan assets, less interest calculated at the discount rate. Remeasurements are recognized immediately through other comprehensive income and are not reclassified to net earnings.

The accrued benefit asset (liability) represents the plan surplus (deficit) and is included in other assets or other liabilities.

Payments to the defined contribution plans are expensed as incurred.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation and its subsidiaries use derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including revenues. The Corporation and its subsidiaries' policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

All derivatives are recorded at fair value on the balance sheets. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the statements of earnings. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

Derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value a derivative depends on the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Corporation and its subsidiaries generally use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently, as if there was no hedging relationship.

Where a hedging relationship exists, the Corporation and its subsidiaries document all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheets or to specific firm commitments or forecasted transactions. The Corporation and its subsidiaries also assess, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through correlation testing.

Fair value hedges For fair value hedges, changes in fair value of both the hedging instrument and the hedged item are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately in net investment income.

Cash flow hedges For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument is recorded in the same manner as the hedged item in either net investment income or other comprehensive income, while the ineffective portion is recognized immediately in net investment income. Gains and losses on cash flow hedges that accumulate in other comprehensive income are recorded in net investment income in the same period the hedged item affects net earnings. Gains and losses on cash flow hedges are immediately reclassified from other comprehensive income to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

Net investment hedges For net investment hedges the effective portion of changes in the fair value of the hedging instrument is recorded in other comprehensive income while the ineffective portion is recognized immediately in net investment income. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a host contract that modifies the cash flows of the host contract in a manner similar to a derivative, according to a specified interest rate, financial instrument price, foreign exchange rate, underlying index or other variable. Embedded derivatives are treated as separate contracts and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself recorded at fair value through the statement of earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

EQUITY

Financial instruments issued by Power Financial are classified as stated capital if they represent a residual interest in the assets of the Corporation. Preferred shares are classified as equity if they are non-redeemable, or retractable only at the Corporation's option and any dividends are discretionary. Costs that are directly attributable to the issue of share capital are recognized as a deduction from retained earnings, net of income tax.

Reserves are composed of share-based compensation and other comprehensive income. Share-based compensation reserves represent the vesting of share options less share options exercised. Other comprehensive income represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the unrealized gains (losses) on available-for-sale assets, the unrealized gains (losses) on cash flow hedges, and the share of other comprehensive income of jointly controlled corporations and associate.

Non-controlling interest represents the proportion of equity that is attributable to minority shareholders.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENTS

The fair value-based method of accounting is used for the valuation of compensation expense for options granted to employees. Compensation expense is recognized as an increase to operating and administrative expenses in the statements of earnings over the period that the stock options vest, with a corresponding increase in share-based compensation reserves. When the stock options are exercised, the proceeds, together with the amount recorded in share-based compensation reserves, are added to the stated capital of the entity issuing the corresponding shares.

The Corporation and its subsidiaries recognize a liability for cash-settled awards, including those granted under Performance Share Unit plans and the Deferred Share Unit plans. Compensation expense is recognized as an increase to operating and administrative expenses in the statement of earnings, net of related hedges, and a liability is recognized on the balance sheets over the period, if any. The liability is remeasured at fair value at each reporting period with the change in the liability recorded in operating and administrative expenses.

FOREIGN CURRENCY TRANSLATION

The Corporation and its subsidiaries operate with multiple functional currencies. The Corporation's financial statements are prepared in Canadian dollars, which is the functional and presentation currency of the Corporation.

Assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at exchange rates prevailing at the balance sheet dates for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenues and expenses denominated in foreign currencies are translated into each entity's functional currency at an average of daily rates. Realized and unrealized exchange gains and losses are included in net investment income and are not material to the financial statements of the Corporation.

Translation of net investment in foreign operations For the purpose of presenting financial statements, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all revenues and expenses are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Corporation's net investment in its foreign operations and jointly controlled corporations and associate are presented as a component of other comprehensive income. Unrealized foreign currency translation gains and losses are recognized in earnings when there has been a disposal of a foreign operation or a jointly controlled corporation.

POLICYHOLDER BENEFITS

Policyholder benefits include benefits and claims on life insurance contracts, maturity payments, annuity payments and surrenders. Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

INCOME TAXES

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or income in the statements of earnings, except to the extent that it relates to items that are not recognized in the statements of earnings (whether in other comprehensive income or directly in equity), in which case the income tax is also recognized in other comprehensive income or directly in equity.

Current income tax Current income tax is based on taxable income for the year. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the rates that have been enacted or substantively enacted at the balance sheet date. Current tax assets and current income tax liabilities are offset, if a legally enforceable right exists to offset the recognized amounts and the entity intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

A provision for tax uncertainties which meet the probable threshold for recognition is measured based on the probability weighted average approach.

Deferred income tax Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income and on unused tax attributes and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unused tax attributes can be utilized.

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to net current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in the subsidiaries, jointly controlled corporations and associate, except where the group controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTE 2 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, where the Corporation and its subsidiaries are the lessee, are charged to net earnings over the period of use.

Where the Corporation and its subsidiaries are the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the balance sheets. Income from these leases is recognized in the statements of earnings on a straight-line basis over the lease term.

EARNINGS PER COMMON SHARE

Basic earnings per common share is determined by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted earnings per common share is determined using the same method as basic earnings per common share, except that the weighted average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Corporation and its subsidiaries, as determined by the treasury stock method.

FUTURE ACCOUNTING CHANGES

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

IAS 32 – Financial Instruments: Presentation Effective January 1, 2014, the Corporation will adopt the guidance in the amendments to IAS 32, *Financial Instruments: Presentation*. The amended standard clarifies the requirements for offsetting financial assets and financial liabilities. The Corporation has evaluated the impact of this standard and has determined that it will not impact the presentation of its financial statements.

IFRS 9 – Financial Instruments The IASB issued IFRS 9, *Financial Instruments* in 2010 to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The IASB intends to make further changes in financial instruments accounting, and has separated its project to amend IFRS 9 into three phases: classification and measurement, impairment methodology and hedge accounting.

> The IASB released a proposal to amend the classification and measurement provisions of IFRS 9 with an additional limited amendment to the standard introducing a new category for classification of certain financial assets of fair value through other comprehensive income. The IASB intends to release a final IFRS on this phase in the first half of 2014.

> The IASB released a revised exposure draft in March 2013 on the expected loss impairment method to be used for financial assets. The IASB intends to release a final IFRS on this phase in the first half of 2014.

> The IASB has finalized deliberations on the criteria for hedge accounting and measuring effectiveness and released the final hedge accounting phase in November 2013. The Corporation is evaluating the impact this standard will have on the presentation of its financial statements.

The full impact of IFRS 9 on the Corporation and its subsidiaries will be evaluated after the remaining stages of the IASB's project to replace IAS 39. In July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9, which will not be set until the finalization of the impairment methodology and classification and measurement requirements phases. The Corporation and its subsidiaries continue to actively monitor this standard. In the case of Lifeco, this is done in combination with the monitoring of developments to IFRS 4.

NOTE 3 CHANGES IN ACCOUNTING POLICIES

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

On January 1, 2013, the Corporation adopted revised IAS 19 (IAS 19R), *Employee Benefits*. In accordance with the required transitional provisions, the Corporation and its subsidiaries retrospectively applied the revised standard. The 2012 comparative financial information in the financial statements and related notes has been restated accordingly.

The amendments made to IAS 19 include the elimination of the corridor approach for actuarial gains and losses which resulted in those gains and losses being recognized immediately through other comprehensive income. As a result, the net pension asset or liability reflects the funded status of the pension plans on the balance sheets. In addition, all service costs, including curtailments and settlements, are recognized immediately in net earnings.

Additionally, the expected return on plan assets is no longer applied to the fair value of the assets to calculate the benefit cost. Under the revised standard, the same discount rate must be applied to the benefit obligation and the plan assets to determine the net interest cost. This discount rate for the net interest cost is determined by reference to market yields at the end of the reporting period on high quality corporate bonds.

Further, the revised standard includes changes to how the defined benefit obligation and the fair value of the plan assets and the components of the pension expense are presented and disclosed within the financial statements of an entity, including the separation of the total amount of the pension plans and other post-employment benefits expense between amounts recognized in the statements of earnings (service costs and net interest costs) and in the statements of comprehensive income (remeasurements). Disclosures relating to retirement benefit plans include discussions concerning the pension plan risk, sensitivity analysis, an explanation of items recognized in the financial statements and descriptions of the amount, timing and uncertainty of the future cash flows.

In accordance with the transitional provisions in IAS 19R, this change has been applied retroactively, which resulted in a decrease to opening equity at January 1, 2012 of $474 million (decrease of $311 million in shareholders' equity and $163 million in non-controlling interests), with an additional decrease to equity of $233 million (decrease of $155 million in shareholders' equity and $78 million in non-controlling interests) at December 31, 2012.

The financial statement items restated due to IAS 19R include other assets, other liabilities, investments in jointly controlled corporations and associate, retained earnings, reserves (other comprehensive income) and non-controlling interests disclosed in the financial statements.

NOTE 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The impact of this change in accounting policy on total comprehensive income is as follows:

DECEMBER 31	2012
Total comprehensive income as previously reported	2,737
Adjustment to net earnings	
Operating and administrative expenses	(12)
Share of earnings of investments in jointly controlled corporations and associate	(4)
Income taxes	4
	(12)
Adjustment to other comprehensive income	
Actuarial gains (losses) on defined benefit pension plans	(297)
Income taxes	83
Share of other comprehensive income of investments in jointly controlled corporations and associate	(7)
	(221)
Restated total comprehensive income	2,504

The impact of this change in accounting policy on the balance sheets is as follows:

	DECEMBER 31, 2012	JANUARY 1, 2012
ASSETS		
Investments in jointly controlled corporations and associate	(28)	(17)
Other assets	(285)	(257)
Deferred tax assets	53	23
Total assets	(260)	(251)
LIABILITIES		
Other liabilities	642	361
Deferred tax liabilities	(195)	(138)
Total liabilities	447	223
EQUITY		
Retained earnings	53	61
Reserves (other comprehensive income)	(519)	(372)
Total shareholders' equity	(466)	(311)
Non-controlling interests	(241)	(163)
Total equity	(707)	(474)
Total liabilities and equity	(260)	(251)

Due to the change in consolidated net earnings in 2012, basic and diluted earnings per share for the year ended December 31, 2012 decreased by $0.01.

IFRS 10 – CONSOLIDATED FINANCIAL STATEMENTS On January 1, 2013, the Corporation adopted IFRS 10, *Consolidated Financial Statements* (IFRS 10). The Corporation has evaluated whether or not to consolidate an entity based on a revised definition of control. The standard defines control as dependent on the power of the investor to direct the relevant activities of the investee, the ability of the investor to derive variable benefits from its holdings in the investee, and a direct link between the power to direct activities and receive benefits.

The Corporation assessed the impact of the adoption of IFRS 10 on all its holdings and other investees, resulting in the following adjustments:

Insurance and investment contracts on account of segregated fund policyholders Lifeco assessed the revised definition of control for the segregated funds for the risk of policyholders and concluded that the revised definition of control was not significantly impacted. Lifeco will continue to present the segregated funds for the risk of policyholders as equal and offsetting amounts with assets and liabilities within the balance sheets and has expanded disclosure on the nature of these entities and the related risks.

In addition, in circumstances where the segregated fund is invested in structured entities and is deemed to control this entity, Lifeco has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts with assets and liabilities. This change did not impact the net earnings and equity of the Corporation, however it resulted in an increase to segregated funds for the risk of policyholders as equal and offsetting amounts on the balance sheets with assets and liabilities of $484 million at December 31, 2012 and $403 million at January 1, 2012.

The application of IFRS 10 for segregated funds for the risk of policyholders may continue to evolve as European insurers are required to adopt IFRS 10 on January 1, 2014. Lifeco will continue to monitor these and other IFRS 10 developments.

See Note 12 for additional information on the presentation and disclosure of these structures.

NOTE 3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Capital trust securities Canada Life Capital Trust and Great-West Life Capital Trust (the capital trusts) were consolidated by Lifeco under IAS 27, *Consolidated and Separate Financial Statements*. The capital trusts will no longer be consolidated in the Corporation's financial statements as Lifeco's investment in the capital trusts does not have exposure to variable returns and therefore does not meet the revised definition of control in IFRS 10. The change in consolidation did not impact the net earnings and equity of the Corporation, however the deconsolidation resulted in an increase to bonds of $45 million at December 31, 2012 and $282 million at January 1, 2012, both with corresponding increases to the capital trust debentures on the balance sheets.

Other Also as a result of the adoption of IFRS 10, Lifeco reclassified on the balance sheets $47 million between shares and investment properties at December 31, 2012 and $48 million at January 1, 2012. The Corporation also reclassified $41 million of bonds, and debentures and debt instruments at December 31, 2012 and $39 million at January 1, 2012.

IFRS 11 – JOINT ARRANGEMENTS On January 1, 2013, the Corporation adopted the guidance in IFRS 11, *Joint Arrangements* (IFRS 11), which separates jointly controlled entities between joint operations and joint ventures. The standard eliminates the option of using proportionate consolidation in accounting for interests in joint ventures and requires entities to use the equity method of accounting for interests in joint ventures. The Corporation concluded that Parjointco constitutes a joint venture as the contractual arrangement provides the parties to the joint arrangement with right to the net assets instead of the individual assets and obligations. Consequently, the Corporation will continue to record its investment in this jointly controlled corporation using the equity method of accounting. The adoption of this standard had no impact on the financial statements of the Corporation.

IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES On January 1, 2013, the Corporation adopted the guidance of IFRS 12, *Disclosure of Interests in Other Entities*. The standard requires enhanced disclosure, including how control was determined and any restrictions that might exist on consolidated assets and liabilities presented by subsidiaries, joint arrangements, associates, and structured entities. The adoption of this standard increased the disclosure concerning the subsidiaries, joint arrangements and investments in associate by the Corporation but had no impact on the financial results of the Corporation.

IFRS 13 – FAIR VALUE MEASUREMENT On January 1, 2013, the Corporation adopted IFRS 13, *Fair Value Measurement*. The standard consolidates the fair value measurement and disclosure guidance into one standard. Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. The standard had no significant impact on the measurement of the Corporation's assets and liabilities but does require additional disclosure related to fair value measurement (see Note 28). The standard has been applied on a prospective basis.

IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS On January 1, 2013, the Corporation adopted the guidance of the amended IAS 1, *Presentation of Financial Statements*. Under the amended standard, other comprehensive income is classified by nature and grouped according to items that will be reclassified subsequently to net earnings (when specific conditions are met) and those that will not be reclassified. This revised standard relates only to presentation and has not impacted the financial results of the Corporation. The amendments have been applied retroactively.

IFRS 7 – FINANCIAL INSTRUMENTS: DISCLOSURE On January 1, 2013, the Corporation adopted the guidance in the amendments to IFRS 7, *Financial Instruments: Disclosure* which introduces financial instrument disclosures related to rights of offset and related arrangements under master netting agreements. This revised standard relates only to disclosure and has not impacted the financial results of the Corporation (see Note 27).

OTHER COMPARATIVE FIGURES During the year, the Corporation and its subsidiaries reclassified other comparative figures for presentation adjustments (Notes 6, 10, 13, 17 and 24). The reclassifications had no impact on the equity or net earnings.

NOTE 4 IRISH LIFE GROUP LIMITED ACQUISITION

On July 18, 2013, Lifeco, through its wholly owned subsidiary Canada Life Limited, completed the acquisition of all of the shares of Irish Life.

The life and pension operations of Lifeco's Irish subsidiary, Canada Life (Ireland), are being combined with the operations of Irish Life, retaining the Irish Life brand name. Irish Life has a strong brand with a broad product offering, and a wide, multi-channel distribution network, similar to Lifeco's operations in Canada.

This in-market acquisition is expected to transform Lifeco's business in Ireland into a market leader in the life insurance, pension and investment management sectors. Irish Life employs a similar and consistent strategy to Lifeco in that it aims to maximize shareholder returns in a low risk and capital-efficient manner.

Funding for the transaction included the net proceeds of the February 19, 2013 issuance by Lifeco of approximately $1.25 billion subscription receipts, completed on March 12, 2013. That offering comprised a $650 million bought deal public offering as well as concurrent private placements of subscription receipts by Power Financial of $550 million and by IGM of $50 million. With the closing of the acquisition of Irish Life by Lifeco on July 18, 2013, the subscription receipts were exchanged on a one-for-one basis for 48,660,000 common shares of Lifeco, of which 21,410,000 and 1,950,000 were issued to Power Financial and IGM, respectively. The balance of the funding for the transaction came from a euro-denominated debt issuance and internal cash resources.

On April 18, 2013 Lifeco issued €500 million of 10-year bonds denominated in euros with an annual coupon of 2.50%. The bonds, rated A+ by Standard & Poor's Ratings Services, are listed on the Irish Stock Exchange. The euro-denominated debt has been designated as a hedge against a portion of Lifeco's net investment in euro-denominated foreign operations with changes in foreign exchange on the debt instrument recorded in other comprehensive income. Lifeco has also entered into foreign exchange forward contracts to fix the euro to the British pound rate on approximately €300 million of the net investment in Irish Life, which has been designated as a hedge.

NOTE 4 IRISH LIFE GROUP LIMITED ACQUISITION (CONTINUED)

The amounts assigned by Lifeco to the assets acquired, goodwill, and liabilities assumed on July 18, 2013, reported as at December 31, 2013, are below:

Acquisition consideration	1,788
ASSETS ACQUIRED	
Cash and cash equivalents	554
Invested assets	4,883
Reinsurance assets	2,963
Intangible assets	247
Other assets	508
Investments on account of segregated fund policyholders	36,348
Total assets acquired	45,503
LIABILITIES ASSUMED	
Insurance contract liabilities	6,160
Investment contract liabilities	194
Subordinated debentures and debt instruments	443
Other liabilities	948
Insurance and investment contract liabilities on account of segregated fund policyholders	36,348
Total liabilities assumed	44,093
Net value of assets acquired	1,410
Goodwill	378

During the fourth quarter of 2013, Lifeco substantially completed its comprehensive evaluation of the fair value of the net assets acquired from Irish Life and the purchase price allocation. As a result, initial goodwill of $554 million, recognized upon the acquisition of Irish Life on July 18, 2013 in the Irish Group Limited Acquisition note to the September 30, 2013 unaudited interim condensed consolidated financial statements, has been adjusted in the fourth quarter of 2013, as a result of valuations received during the measurement period. Adjustments were made to the provisional amounts disclosed in the September 30, 2013 unaudited interim condensed consolidated financial statements for the recognition and measurement of intangible assets, contingent liabilities and other provisions, changes in actuarial assumptions used in determining the fair value for insurance contract liabilities, and the related deferred taxes.

The following provides the change in the carrying value of the goodwill on the acquisition of Irish Life to December 31, 2013:

Initial Irish Life goodwill, July 18, 2013, previously reported	554
Recognition and measurement of intangible assets	(247)
Adjustment to contingent liabilities and other provisions	30
Adjustment to insurance contract liabilities	15
Deferred tax liability on adjustments to purchase price allocation	26
Adjusted balance, July 18, 2013	378

The goodwill represents the excess of the purchase price over the fair value of the net assets, representing the synergies or future economic benefits arising from other assets acquired that are not individually identified and separately recognized in the acquisition of Irish Life. Goodwill is not deductible for tax purposes.

Lifeco will finalize the purchase accounting for the Irish Life acquisition in the first six months of 2014. Balance sheet items that are incomplete are insurance contract liabilities. Lifeco is completing experience studies on certain insurance contract liabilities. As a result, the excess of the purchase price over the fair value of the net assets acquired representing goodwill could be adjusted for these insurance contract liabilities retrospectively during future reporting periods in the first six months of 2014. The audited financial statements at December 31, 2013 reflect Lifeco management's best estimate of the purchase price allocation.

From date of acquisition to December 31, 2013, Irish Life contributed $526 million in revenue and $85 million in net earnings (excludes after-tax restructuring expenses incurred by Irish Life). These amounts are included in the statements of earnings and comprehensive income for the twelve months ended December 31, 2013.

During the twelve months ended December 31, 2013, Lifeco incurred restructuring and acquisition expenses related to Irish Life of $94 million (Note 24).

Supplemental pro-forma revenue and net earnings for the combined entity, as though the acquisition date for this business combination had been as of the beginning of the annual reporting period, has not been included as it is impracticable, since Irish Life had a different financial reporting basis than Lifeco.

Lifeco has recognized $48 million of contingent liabilities for Irish Life within other liabilities. The potential outcome of these matters is not yet determinable.

NOTE 5 CASH AND CASH EQUIVALENTS

	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Cash	1,930	1,152	912
Cash equivalents	2,414	2,161	2,473
Cash and cash equivalents	4,344	3,313	3,385

At December 31, 2013, cash amounting to $112 million was restricted for use by the subsidiaries ($34 million at December 31, 2012 and $41 million at January 1, 2012).

NOTE 6 INVESTMENTS

CARRYING VALUES AND FAIR VALUES

Carrying values and estimated fair values of investments are as follows:

	DECEMBER 31, 2013		DECEMBER 31, 2012		JANUARY 1, 2012	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Bonds						
Designated as fair value through profit or loss[1]	68,051	68,051	62,937	62,937	60,087	60,087
Classified as fair value through profit or loss[1]	2,053	2,053	2,113	2,113	1,853	1,853
Available for sale	8,370	8,370	7,407	7,407	7,318	7,318
Loans and receivables	11,855	12,672	10,934	12,438	9,744	10,785
	90,329	91,146	83,391	84,895	79,002	80,043
Mortgages and other loans						
Loans and receivables	24,591	25,212	22,548	23,859	21,226	22,514
Designated as fair value through profit or loss[1]	324	324	249	249	292	292
	24,915	25,536	22,797	24,108	21,518	22,806
Shares						
Designated as fair value through profit or loss[1]	7,297	7,297	5,949	5,949	5,454	5,454
Available for sale	749	749	812	812	906	906
	8,046	8,046	6,761	6,761	6,360	6,360
Investment properties	4,288	4,288	3,572	3,572	3,249	3,249
Loans to policyholders	7,332	7,332	7,082	7,082	7,162	7,162
	134,910	136,348	123,603	126,418	117,291	119,620

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

NOTE 6 INVESTMENTS (CONTINUED)

BONDS AND MORTGAGES

Carrying value of bonds and mortgages due over the current and non-current term is as follows:

	CARRYING VALUE			
	TERM TO MATURITY			
DECEMBER 31, 2013	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL
Bonds	9,571	17,774	62,616	89,961
Mortgage loans	2,465	11,472	10,635	24,572
	12,036	29,246	73,251	114,533

	CARRYING VALUE			
	TERM TO MATURITY			
DECEMBER 31, 2012	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL
Bonds	8,351	16,899	57,789	83,039
Mortgage loans	2,057	10,069	10,401	22,527
	10,408	26,968	68,190	105,566

	CARRYING VALUE			
	TERM TO MATURITY			
JANUARY 1, 2012	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL
Bonds	7,627	17,450	53,649	78,726
Mortgage loans	2,042	8,916	10,249	21,207
	9,669	26,366	63,898	99,933

The table shown above excludes the carrying value of impaired bonds and mortgages, as the ultimate timing of collectability is uncertain.

IMPAIRED INVESTMENTS, ALLOWANCE FOR CREDIT LOSSES, INVESTMENTS WITH RESTRUCTURED TERMS

Carrying amount of impaired investments is as follows:

	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Impaired amounts by type			
Fair value through profit or loss	384	365	290
Available for sale	19	27	51
Loans and receivables	34	41	36
Total	437	433	377

The allowance for credit losses and changes in the allowance for credit losses related to investments classified as loans and receivables are as follows:

DECEMBER 31	2013	2012
Balance, beginning of year	22	37
Net provision (recovery) for credit losses	2	(9)
Write-offs, net of recoveries	–	(5)
Other (including foreign exchange rate changes)	2	(1)
Balance, end of year	26	22

The allowance for credit losses is supplemented by the provision for future credit losses included in insurance contract liabilities.

NOTE 6 INVESTMENTS (CONTINUED)

NET INVESTMENT INCOME

YEAR ENDED DECEMBER 31, 2013	BONDS	MORTGAGE AND OTHER LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Regular net investment income:						
Investment income earned	3,733	927	242	276	461	5,639
Net realized gains (losses) (available for sale)	64	–	8	–	–	72
Net realized gains (losses) (other classifications)	30	55	–	–	–	85
Net recovery (provision) for credit losses (loans and receivables)	–	(2)	–	–	–	(2)
Other income (expenses)	–	(3)	–	(68)	(88)	(159)
	3,827	977	250	208	373	5,635
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains (losses) (classified fair value through profit or loss)	(68)	3	2	–	–	(63)
Net realized/unrealized gains (losses) (designated fair value through profit or loss)	(3,783)	–	858	152	(138)	(2,911)
	(3,851)	3	860	152	(138)	(2,974)
Net investment income	(24)	980	1,110	360	235	2,661

YEAR ENDED DECEMBER 31, 2012	BONDS	MORTGAGE AND OTHER LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Regular net investment income:						
Investment income earned	3,687	946	230	255	532	5,650
Net realized gains (losses) (available for sale)	124	–	4	–	–	128
Net realized gains (losses) (other classifications)	10	46	–	–	1	57
Net recovery (provision) for credit losses (loans and receivables)	1	8	–	–	–	9
Other income (expenses)	–	(12)	–	(63)	(69)	(144)
	3,822	988	234	192	464	5,700
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains (losses) (classified fair value through profit or loss)	22	5	–	–	2	29
Net realized/unrealized gains (losses) (designated fair value through profit or loss)	2,181	–	389	104	(28)	2,646
	2,203	5	389	104	(26)	2,675
Net investment income	6,025	993	623	296	438	8,375

During the year, Lifeco reclassified certain regular net investment income to fair value through profit or loss for presentation adjustments.

Investment income earned comprises income from investments that are: i) classified as available for sale, loans and receivables; and ii) classified or designated as fair value through profit or loss. Investment income from bonds and mortgages and other loans includes interest income and premium and discount amortization. Income from shares includes dividends and distributions. 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.

NOTE 6 INVESTMENTS (CONTINUED)

INVESTMENT PROPERTIES

The carrying value of investment properties and changes in the carrying value of investment properties are as follows:

DECEMBER 31	2013	2012
Balance, beginning of year	3,572	3,249
Acquisition of Irish Life	248	–
Additions	182	166
Change in fair value through profit or loss	152	104
Disposals	(82)	–
Foreign exchange rate changes	216	53
Balance, end of year	4,288	3,572

TRANSFERRED FINANCIAL ASSETS

Lifeco engages in securities lending to generate additional income. Lifeco's securities custodians are used as lending agents. Collateral, which exceeds the market value of the loaned securities, is deposited by the borrower with Lifeco's lending agent and maintained by the lending agent until the underlying security has been returned. The market value of the loaned securities is monitored on a daily basis by the lending agent, who obtains or refunds additional collateral as the fair value of the loaned securities fluctuates. Included in the collateral deposited with Lifeco's lending agent is cash collateral of $20 million as at December 31, 2013 ($141 million as at December 31, 2012). In addition, the securities lending agent indemnifies Lifeco against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As at December 31, 2013, Lifeco had loaned securities with a market value of $5,204 million ($5,930 million as at December 31, 2012).

NOTE 7 FUNDS HELD BY CEDING INSURERS

Included in funds held by ceding insurers of $10,832 million at December 31, 2013 ($10,599 million at December 31, 2012 and $9,978 million at January 1, 2012) is an agreement with Standard Life Assurance Limited (Standard Life). During 2008, Canada Life International Re Limited (CLIRE), Lifeco's indirect wholly owned Irish reinsurance subsidiary, signed an agreement with Standard Life, a U.K.-based provider of life, pension and investment products, to assume by way of indemnity reinsurance a large block of payout annuities. Under the agreement, CLIRE is required to put amounts on deposit with Standard Life and CLIRE has assumed the credit risk on the portfolio of assets included in the amounts on deposit. These amounts on deposit are included in funds held by ceding insurers on the balance sheets. Income and expenses arising from the agreement are included in net investment income on the statements of earnings.

At December 31, 2013 CLIRE had amounts on deposit of $9,848 million ($9,951 million at December 31, 2012 and $9,411 million at January 1, 2012). The details of the funds on deposit and related credit risk on the funds are as follows:

CARRYING VALUES AND ESTIMATED FAIR VALUES

	DECEMBER 31, 2013		DECEMBER 31, 2012		JANUARY 1, 2012	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Cash and cash equivalents	70	70	120	120	49	49
Bonds	9,619	9,619	9,655	9,655	9,182	9,182
Other assets	159	159	176	176	180	180
	9,848	9,848	9,951	9,951	9,411	9,411
Supporting:						
Reinsurance liabilities	9,402	9,402	9,406	9,406	9,082	9,082
Surplus	446	446	545	545	329	329
	9,848	9,848	9,951	9,951	9,411	9,411

NOTE 7 FUNDS HELD BY CEDING INSURERS (CONTINUED)

CARRYING VALUE OF BONDS BY ISSUER AND INDUSTRY SECTOR

The following table provides details of the carrying value of bonds included in the funds on deposit by issuer and industry sector:

	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Bonds issued or guaranteed by:			
Canadian federal government	75	71	–
Provincial, state and municipal governments	17	16	88
U.S. treasury and other U.S. agencies	22	16	–
Other foreign governments	2,097	2,455	3,074
Government-related	508	443	369
Supranationals	185	172	128
Asset-backed securities	249	258	242
Residential mortgage-backed securities	91	87	73
Banks	1,944	2,070	1,807
Other financial institutions	1,033	1,007	747
Basic materials	70	58	21
Communications	138	224	239
Consumer products	704	617	404
Industrial products/services	108	31	26
Natural resources	354	320	220
Real estate	540	475	381
Transportation	196	145	117
Utilities	1,190	1,119	1,135
Miscellaneous	98	71	111
Total bonds	9,619	9,655	9,182

ASSET QUALITY

The following table provides details of the carrying value of the bond portfolio by credit rating:

BOND PORTFOLIO BY CREDIT RATING	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
AAA	2,669	3,103	3,520
AA	2,382	2,183	1,819
A	3,666	3,539	3,116
BBB	546	507	468
BB and lower	356	323	259
Total bonds	9,619	9,655	9,182

NOTE 8 INVESTMENTS IN JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATE

Investments in jointly controlled corporations and associate are composed principally of the Corporation's 50% interest in Parjointco. As at December 31, 2013, Parjointco held a 55.6% equity interest in Pargesa (55.6% as at December 31, 2012), representing 75.4% of the voting rights.

Investments in jointly controlled corporations and associate also include Lifeco's 30.4% investment, held through Irish Life, in Allianz Ireland, an unlisted general insurance company operating in Ireland.

Carrying value of the investments in jointly controlled corporations and associate is as follows:

DECEMBER 31	2013	2012
Carrying value, beginning of year	2,121	2,205
Acquisition of Irish Life	207	–
Share of earnings	134	130
Share of other comprehensive income (loss)	274	(107)
Dividends	(78)	(65)
Other	6	(42)
Carrying value, end of year	2,664	2,121

The net asset value of the Corporation's indirect interest in Pargesa is approximately $2,927 million as at December 31, 2013. The carrying value of the investment in Pargesa is $2,437 million, or $1,902 million excluding the unrealized net gains of its underlying investments. Pargesa's financial information as at and for the year ended December 31, 2013 can be obtained in its publicly available information.

NOTE 9 OWNER-OCCUPIED PROPERTIES AND CAPITAL ASSETS

The carrying value of owner-occupied properties and capital assets and the changes in the carrying value of owner-occupied properties and capital assets are as follows:

			2013			2012
DECEMBER 31	OWNER-OCCUPIED PROPERTIES	CAPITAL ASSETS	TOTAL	OWNER-OCCUPIED PROPERTIES	CAPITAL ASSETS	TOTAL
Cost, beginning of year	607	907	1,514	577	846	1,423
Acquisition of Irish Life	49	30	79	–	–	–
Additions	23	85	108	33	93	126
Disposal/retirements	–	(66)	(66)	–	(32)	(32)
Change in foreign exchange rates	14	12	26	(3)	–	(3)
Cost, end of year	693	968	1,661	607	907	1,514
Accumulated amortization, beginning of year	(43)	(680)	(723)	(36)	(649)	(685)
Amortization	(9)	(53)	(62)	(7)	(52)	(59)
Impairment	–	(2)	(2)	–	–	–
Disposal/retirements	–	54	54	–	24	24
Change in foreign exchange rates	–	(3)	(3)	–	(3)	(3)
Accumulated amortization, end of year	(52)	(684)	(736)	(43)	(680)	(723)
Carrying value, end of year	641	284	925	564	227	791

The following table provides details of the carrying value of owner-occupied properties and capital assets by geographic location:

	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Canada	613	589	536
United States	188	172	175
Europe	124	30	27
	925	791	738

NOTE 10 OTHER ASSETS

	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Premiums in course of collection, accounts receivable and interest receivable	3,435	2,955	2,661
Deferred acquisition costs	687	541	529
Pension benefits [Note 26]	408	202	199
Income taxes receivable	199	204	209
Trading account assets	376	144	141
Prepaid expenses	115	120	129
Other	687	608	413
	5,907	4,774	4,281

Total other assets of $4,772 million as at December 31, 2013 are to be realized within 12 months.

NOTE 11 GOODWILL AND INTANGIBLE ASSETS

GOODWILL

The carrying value of the goodwill and changes in the carrying value of the goodwill are as follows:

	2013			2012		
DECEMBER 31	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE	COST	ACCUMULATED IMPAIRMENT	CARRYING VALUE
Balance, beginning of year	9,563	(890)	8,673	9,703	(917)	8,786
Acquisition of Irish Life [Note 4]	378	–	378	–	–	–
Additions	17	–	17	–	–	–
Change in foreign exchange rates	100	(63)	37	(31)	27	(4)
Other	–	–	–	(109)	–	(109)
Balance, end of year	10,058	(953)	9,105	9,563	(890)	8,673

ALLOCATION TO CASH GENERATING UNITS

Goodwill has been assigned to cash generating units as follows:

	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
LIFECO			
Canada			
Group	1,142	1,142	1,142
Individual insurance / wealth management	3,028	3,028	3,028
Europe			
Insurance and annuities	1,970	1,563	1,563
Reinsurance	1	1	1
United States			
Financial services	131	123	127
IGM			
Investors Group	1,443	1,443	1,500
Mackenzie	1,250	1,250	1,302
Other and corporate	140	123	123
	9,105	8,673	8,786

NOTE 11 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

INTANGIBLE ASSETS

The carrying value of the intangible assets and changes in the carrying value of the intangible assets are as follows:

INDEFINITE LIFE INTANGIBLE ASSETS

DECEMBER 31, 2013	CUSTOMER CONTRACT-RELATED	SHAREHOLDERS' PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFITS	BRANDS, TRADEMARKS AND TRADE NAMES	MUTUAL FUND MANAGEMENT CONTRACTS	TOTAL
Cost, beginning of year	2,264	354	1,002	740	4,360
Acquisition of Irish Life [Note 4]	–	–	131	–	131
Additions	–	–	–	1	1
Change in foreign exchange rates	134	–	45	–	179
Cost, end of year	2,398	354	1,178	741	4,671
Accumulated impairment, beginning of year	(802)	–	(91)	–	(893)
Impairment	–	–	(34)	–	(34)
Change in foreign exchange rates and other	(56)	–	(7)	–	(63)
Accumulated impairment, end of year	(858)	–	(132)	–	(990)
Carrying value, end of year	1,540	354	1,046	741	3,681

DECEMBER 31, 2012	CUSTOMER CONTRACT-RELATED	SHAREHOLDERS' PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFITS	BRANDS, TRADEMARKS AND TRADE NAMES	MUTUAL FUND MANAGEMENT CONTRACTS	TOTAL
Cost, beginning of year	2,321	354	1,011	740	4,426
Change in foreign exchange rates	(57)	–	(9)	–	(66)
Cost, end of year	2,264	354	1,002	740	4,360
Accumulated impairment, beginning of year	(825)	–	(94)	–	(919)
Change in foreign exchange rates	23	–	3	–	26
Accumulated impairment, end of year	(802)	–	(91)	–	(893)
Carrying value, end of year	1,462	354	911	740	3,467

JANUARY 1, 2012	CUSTOMER CONTRACT-RELATED	SHAREHOLDERS' PORTION OF ACQUIRED FUTURE PARTICIPATING ACCOUNT PROFITS	BRANDS, TRADEMARKS AND TRADE NAMES	MUTUAL FUND MANAGEMENT CONTRACTS	TOTAL
Cost	2,321	354	1,011	740	4,426
Accumulated impairment	(825)	–	(94)	–	(919)
Carrying value	1,496	354	917	740	3,507

NOTE 11 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

FINITE LIFE INTANGIBLE ASSETS

DECEMBER 31, 2013	CUSTOMER CONTRACT-RELATED	DISTRIBUTION CHANNELS	DISTRIBUTION CONTRACTS	TECHNOLOGY AND PROPERTY LEASES	SOFTWARE	DEFERRED SELLING COMMISSIONS	TOTAL
Cost, beginning of year	564	103	110	25	655	1,448	2,905
Acquisition of Irish Life [Note 4]	116	–	–	–	–	–	116
Additions	–	–	2	–	115	237	354
Disposal/redemption	–	–	(1)	–	(1)	(84)	(86)
Change in foreign exchange rates	27	7	–	2	16	–	52
Other, including write-off of assets fully amortized	–	–	–	–	13	(222)	(209)
Cost, end of year	707	110	111	27	798	1,379	3,132
Accumulated amortization, beginning of year	(235)	(34)	(41)	(25)	(352)	(752)	(1,439)
Amortization	(39)	(3)	(8)	–	(82)	(210)	(342)
Impairment	–	–	–	–	(3)	–	(3)
Disposal/redemption	–	–	–	–	(1)	49	48
Change in foreign exchange rates	(6)	(1)	–	(2)	(9)	–	(18)
Other, including write-off of assets fully amortized	–	–	–	–	–	222	222
Accumulated amortization, end of year	(280)	(38)	(49)	(27)	(447)	(691)	(1,532)
Carrying value, end of year	427	72	62	–	351	688	1,600

DECEMBER 31, 2012	CUSTOMER CONTRACT-RELATED	DISTRIBUTION CHANNELS	DISTRIBUTION CONTRACTS	TECHNOLOGY AND PROPERTY LEASES	SOFTWARE	DEFERRED SELLING COMMISSIONS	TOTAL
Cost, beginning of year	571	100	107	25	545	1,551	2,899
Additions	–	–	3	–	105	212	320
Disposal/redemption	–	–	–	–	(19)	(103)	(122)
Change in foreign exchange rates	(7)	3	–	–	(3)	–	(7)
Other, including write-off of assets fully amortized	–	–	–	–	27	(212)	(185)
Cost, end of year	564	103	110	25	655	1,448	2,905
Accumulated amortization, beginning of year	(204)	(29)	(33)	(22)	(295)	(800)	(1,383)
Amortization	(31)	(5)	(8)	(3)	(72)	(223)	(342)
Disposal/redemption	–	–	–	–	15	59	74
Other, including write-off of assets fully amortized	–	–	–	–	–	212	212
Accumulated amortization, end of year	(235)	(34)	(41)	(25)	(352)	(752)	(1,439)
Carrying value, end of year	329	69	69	–	303	696	1,466

JANUARY 1, 2012	CUSTOMER CONTRACT-RELATED	DISTRIBUTION CHANNELS	DISTRIBUTION CONTRACTS	TECHNOLOGY AND PROPERTY LEASES	SOFTWARE	DEFERRED SELLING COMMISSIONS	TOTAL
Cost	571	100	107	25	545	1,551	2,899
Accumulated impairment	(204)	(29)	(33)	(22)	(295)	(800)	(1,383)
Carrying value, end of year	367	71	74	3	250	751	1,516

NOTE 11 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

The Corporation and its subsidiaries conducted their annual impairment testings of goodwill and intangible assets which resulted in impairment charges of $37 million. Lifeco recognized a $34 million intangible asset impairment which reflects discontinued use of the Canada Life brand in Ireland as a result of the Irish Life acquisition. This impairment charge has been recorded in restructuring and acquisition expenses (Note 24). Also, Lifeco recognized an impairment charge of $3 million on software assets.

RECOVERABLE AMOUNT

For the purposes of annual impairment testing, goodwill has been allocated to the cash generating units which are the units expected to benefit from the synergies of the business combinations.

Any potential impairment of goodwill or intangible assets is identified by comparing the recoverable amount to its carrying value. The recoverable amount is determined as the higher of fair value less cost to sell or value-in-use.

Fair value is determined using a combination of commonly accepted valuation methodologies, namely comparable trading and transaction multiples and discounted cash flow analysis. Comparable trading and transaction multiples methodologies calculate value by applying multiples observed in the market against historical and projected results approved by management. Value-in-use is calculated by discounting cash flow projections approved by management or board of directors covering an initial forecast period of three to five years. Value beyond the initial period is derived by applying a terminal value multiple to the final year of the initial projection period. For a significant portion of the goodwill and intangible assets, the terminal value multiple is a function of the discount rate (which ranges from 10% to 12.5%) and the terminal growth rate (which ranges from 1.5% to 3.0%). The discount rate is reflective of the country- and product-specific cash flow risks and the terminal growth rate is estimated as the long-term average growth rate of sales, including inflation in the markets in which the Corporation and its subsidiaries operate.

NOTE 12 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES

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

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

In circumstances where the segregated funds are invested in structured entities and are deemed to control the entity, Lifeco has presented the non-controlling ownership interest within the segregated funds for the risk of policyholders as equal and offsetting amounts in the assets and liabilities. The amounts presented within are $772 million at December 31, 2013 ($484 million at December 31, 2012 and $403 million at January 1, 2012).

Within the statement of earnings, all segregated fund policyholders' income, including fair value changes and net investment income, is credited to the segregated fund policyholders and reflected in the assets and liabilities on account of segregated fund policyholders within the balance sheets. As these amounts do not directly impact the revenues and expenses of Lifeco, these amounts are not included separately in the statements of earnings.

SEGREGATED FUNDS AND GUARANTEE EXPOSURE

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

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

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

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

Lifeco also offers guaranteed minimum withdrawal benefits products in Canada, the U.S. and Europe. These guaranteed minimum withdrawal benefits products offer levels of death and maturity guarantees. At December 31, 2013, the amount of guaranteed minimum withdrawal benefits products in force in Canada, the U.S., Ireland and Germany was $2,674 million ($2,110 million at December 31, 2012 and $1,256 million at January 1, 2012).

NOTE 12 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (CONTINUED)

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

		INVESTMENT DEFICIENCY BY BENEFIT TYPE			
DECEMBER 31, 2013	FAIR VALUE	INCOME	MATURITY	DEATH	TOTAL[1]
Canada	26,779	–	32	101	101
United States	8,853	–	–	42	42
Europe	8,683	260	16	74	334
Total	44,315	260	48	217	477

		INVESTMENT DEFICIENCY BY BENEFIT TYPE			
DECEMBER 31, 2012	FAIR VALUE	INCOME	MATURITY	DEATH	TOTAL[1]
Canada	24,192	–	29	181	181
United States	7,272	–	–	59	59
Europe	3,665	552	40	71	624
Total	35,129	552	69	311	864

		INVESTMENT DEFICIENCY BY BENEFIT TYPE			
JANUARY 1, 2012	FAIR VALUE	INCOME	MATURITY	DEATH	TOTAL[1]
Canada	22,837	–	39	301	301
United States	7,041	1	–	79	80
Europe	3,232	641	124	174	817
Total	33,110	642	163	554	1,198

[1] A policy can only receive a payout for one of the three trigger events (income election, maturity, or death). Total deficiency measures the point-in-time exposure assuming the most costly trigger event for each policy occurred on December 31, 2013, December 31, 2012 and January 1, 2012.

The investment deficiency measures the point-in-time exposure to a trigger event (i.e. income election, maturity, or death) assuming it occurred on December 31, 2013. The actual cost to Lifeco will depend on the trigger event having occurred and the fair values at that time. The actual claims before tax associated with these guarantees were approximately $24 million for the year ended December 31, 2013, with the majority arising in the Europe segment.

For further details on Lifeco's risk and guarantee exposure and the management of these risks, refer to "Risk Management and Control Practices" in the Lifeco section of the Corporation's annual Management's Discussion and Analysis.

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Cash and cash equivalents	11,374	4,837	5,334
Bonds	34,405	24,070	21,594
Mortgage loans	2,427	2,303	2,303
Shares and units in unit trusts	62,882	35,154	32,651
Mutual funds	41,555	34,100	31,234
Investment properties	8,284	6,149	5,457
	160,927	106,613	98,573
Accrued income	380	239	287
Other liabilities/assets	(1,300)	(1,904)	(2,278)
Non-controlling mutual fund interest	772	484	403
	160,779	105,432	96,985

NOTE 12 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (CONTINUED)

INSURANCE AND INVESTMENT CONTRACTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

YEAR ENDED DECEMBER 31	2013	2012
Balance, beginning of year	105,432	96,985
Additions (deductions):		
Policyholder deposits	15,861	13,819
Net investment income	1,565	1,189
Net realized capital gains on investments	3,419	1,094
Net unrealized capital gains on investments	7,879	4,316
Unrealized gains (losses) due to changes in foreign exchange rates	7,226	(213)
Policyholder withdrawals	(17,141)	(11,831)
Acquisition of Irish Life [Note 4]	36,348	–
Net transfer from General Fund	67	(8)
Non-controlling mutual fund interest	123	81
	55,347	8,447
Balance, end of year	160,779	105,432

INVESTMENT INCOME ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

YEAR ENDED DECEMBER 31	2013	2012
Net investment income	1,565	1,189
Net realized capital gains on investments	3,419	1,094
Net unrealized capital gains on investments	7,879	4,316
Unrealized gains (losses) due to changes in foreign exchange rates	7,226	(213)
Total	20,089	6,386
Change in insurance and investment contract liabilities on account of segregated fund policyholders	20,089	6,386
Net	–	–

INVESTMENTS ON ACCOUNT OF SEGREGATED FUND POLICYHOLDERS

(by fair value hierarchy level)

DECEMBER 31, 2013	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments on account of segregated fund policyholders[1]	106,144	46,515	9,298	161,957

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

During 2013 certain foreign equity holdings valued at $1,780 million have been transferred from Level 2 to Level 1, based on Lifeco'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 Lifeco does not have visibility through to the underlying assets.

The following presents additional information about Lifeco's investments on account of segregated fund policyholders for which Lifeco has utilized Level 3 inputs to determine fair value for the year ended December 31, 2013:

DECEMBER 31	2013
Balance, beginning of year	6,287
Total gains included in segregated fund investment income	694
Acquisition of Irish Life	2,326
Purchases	428
Sales	(440)
Transfers into Level 3	4
Transfers out of Level 3	(1)
Balance, end of year	9,298

NOTE 12 SEGREGATED FUNDS AND OTHER STRUCTURED ENTITIES (CONTINUED)

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

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

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

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

Fee and other income received by Lifeco resulting from Lifeco's interests in these structured entities was $3,068 million.

Included within other assets (see Note 10) is $306 million of investments by Lifeco in bonds and stocks of Putnam-sponsored funds and $70 million of investments in stocks of sponsored unit trusts in Europe.

During 2013, Lifeco has not provided any additional significant financial or other support to the structured entities.

NOTE 13 INSURANCE AND INVESTMENT CONTRACT LIABILITIES

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

DECEMBER 31, 2013	GROSS LIABILITY	REINSURANCE ASSETS	NET
Insurance contract liabilities	131,174	5,070	126,104
Investment contract liabilities	889	–	889
	132,063	5,070	126,993

DECEMBER 31, 2012	GROSS LIABILITY	REINSURANCE ASSETS	NET
Insurance contract liabilities	119,973	2,064	117,909
Investment contract liabilities	739	–	739
	120,712	2,064	118,648

JANUARY 1, 2012	GROSS LIABILITY	REINSURANCE ASSETS	NET
Insurance contract liabilities	114,785	2,061	112,724
Investment contract liabilities	782	–	782
	115,567	2,061	113,506

NOTE 13 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

COMPOSITION OF INSURANCE AND INVESTMENT CONTRACT LIABILITIES AND RELATED SUPPORTING ASSETS

The composition of insurance and investment contract liabilities of Lifeco is as follows:

	DECEMBER 31, 2013			DECEMBER 31, 2012			JANUARY 1, 2012		
	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET
Participating									
Canada	29,107	(132)	29,239	27,851	(88)	27,939	26,470	(50)	26,520
United States	9,337	11	9,326	8,942	14	8,928	8,639	18	8,621
Europe	1,247	–	1,247	1,241	–	1,241	1,230	–	1,230
Non-participating									
Canada	25,898	521	25,377	27,283	746	26,537	27,099	919	26,180
United States	19,038	238	18,800	17,356	241	17,115	16,657	276	16,381
Europe	47,436	4,432	43,004	38,039	1,151	36,888	35,472	898	34,574
	132,063	5,070	126,993	120,712	2,064	118,648	115,567	2,061	113,506

The composition of the assets supporting liabilities and equity of Lifeco is as follows:

DECEMBER 31, 2013	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Participating liabilities						
Canada	11,907	7,701	4,923	1,157	3,419	29,107
United States	4,583	141	–	–	4,613	9,337
Europe	852	39	143	35	178	1,247
Non-participating liabilities						
Canada	16,157	3,769	1,796	3	4,173	25,898
United States	15,508	2,911	–	–	619	19,038
Europe	27,273	3,290	225	2,460	14,188	47,436
Other, including segregated funds	9,239	641	96	87	163,780	173,843
Total equity	4,395	571	1,371	546	13,116	19,999
Total carrying value	89,914	19,063	8,554	4,288	204,086	325,905
Fair value	90,731	19,517	8,720	4,288	204,086	327,342

DECEMBER 31, 2012	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Participating liabilities						
Canada	12,818	6,903	4,221	932	2,977	27,851
United States	4,307	188	–	–	4,447	8,942
Europe	874	40	115	66	146	1,241
Non-participating liabilities						
Canada	17,519	4,428	1,565	3	3,768	27,283
United States	14,280	2,464	–	–	612	17,356
Europe	22,420	2,827	127	2,173	10,492	38,039
Other, including segregated funds	6,507	493	–	4	109,123	116,127
Total equity	3,856	532	1,023	394	11,206	17,011
Total carrying value	82,581	17,875	7,051	3,572	142,771	253,850
Fair value	84,085	19,067	7,089	3,572	142,771	256,584

NOTE 13 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

JANUARY 1, 2012	BONDS	MORTGAGE LOANS	SHARES	INVESTMENT PROPERTIES	OTHER	TOTAL
Participating liabilities						
Canada	11,862	6,686	3,864	507	3,551	26,470
United States	4,059	152	–	–	4,428	8,639
Europe	855	56	128	70	121	1,230
Non-participating liabilities						
Canada	16,674	4,738	1,329	20	4,338	27,099
United States	13,523	2,369	–	–	765	16,657
Europe	20,449	2,506	119	2,092	10,306	35,472
Other, including segregated funds	6,563	484	–	6	100,869	107,922
Total equity	4,370	441	1,216	554	9,131	15,712
Total carrying value	78,355	17,432	6,656	3,249	133,509	239,201
Fair value	79,396	18,662	6,724	3,249	133,509	241,540

Cash flows of assets supporting insurance and investment contract liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of insurance and investment contract liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

CHANGE IN INSURANCE CONTRACT LIABILITIES

The change in insurance contract liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	PARTICIPATING			NON-PARTICIPATING			
DECEMBER 31, 2013	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET	TOTAL NET
Balance, beginning of year	38,003	(74)	38,077	81,970	2,138	79,832	117,909
Acquisition of Irish Life	–	–	–	6,160	2,963	3,197	3,197
Impact of new business	16	–	16	5,251	(135)	5,386	5,402
Normal change in force	1,049	(13)	1,062	(5,898)	417	(6,315)	(5,253)
Management action and changes in assumptions	(129)	(36)	(93)	(407)	(323)	(84)	(177)
Business movement from/to external parties	–	–	–	(455)	(234)	(221)	(221)
Impact of foreign exchange rate changes	724	2	722	4,890	365	4,525	5,247
Balance, end of year	39,663	(121)	39,784	91,511	5,191	86,320	126,104

	PARTICIPATING			NON-PARTICIPATING			
DECEMBER 31, 2012	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET	TOTAL NET
Balance, beginning of year	36,303	(32)	36,335	78,482	2,093	76,389	112,724
Impact of new business	72	–	72	4,656	326	4,330	4,402
Normal change in force	1,621	(6)	1,627	(519)	35	(554)	1,073
Management action and changes in assumptions	(260)	(34)	(226)	(380)	(306)	(74)	(300)
Business movement from/to external parties	–	–	–	(48)	(7)	(41)	(41)
Impact of foreign exchange rate changes	(262)	(2)	(260)	308	(3)	311	51
Impact of Crown Life amalgamation	529	–	529	(529)	–	(529)	–
Balance, end of year	38,003	(74)	38,077	81,970	2,138	79,832	117,909

NOTE 13 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

Under fair value accounting, movement in the fair value of the supporting assets is a major factor in the movement of insurance contract liabilities. Changes in the fair value of assets are largely offset by corresponding changes in the fair value of liabilities. The change in the value of the insurance contract liabilities associated with the change in the value of the supporting assets is included in the normal change in force above.

In 2013, the major contributors to the increase in net insurance contract liabilities were the impact of new business ($5,402 million increase), the impact of foreign exchange rate changes ($5,247 million increase) and the Irish Life acquisition ($3,197 million increase). This was partially offset by the normal change in the in-force business ($5,253 million decrease) which was partly due to the change in fair value.

Net non-participating insurance contract liabilities decreased by $84 million in 2013 due to management actions and assumption changes including a $123 million decrease in Canada, a $41 million increase in Europe and a $2 million decrease in the United States.

The decrease in Canada was primarily due to updated mortality assumptions ($95 million decrease), updated morbidity assumptions ($70 million decrease), modelling refinements across the Canadian segment ($15 million decrease), decreased provisions for interest and mismatch risk ($5 million decrease) and updated expenses and taxes ($3 million decrease), partially offset by increased provisions for policyholder behaviour ($63 million increase) and updated longevity assumptions ($3 million increase).

The increase in Europe was primarily due to increased provisions for policyholder behaviour ($55 million increase), increased provisions for expenses and taxes ($30 million increase), updated morbidity assumptions ($27 million increase) and updates to other provisions ($4 million increase), partially offset by updates to the life mortality assumptions ($40 million decrease), decreased provisions for interest and mismatch risk ($25 million decrease) and modelling refinements ($11 million decrease).

The decrease in the United States was primarily due to updated life mortality assumptions ($12 million decrease), partially offset by updated expenses and taxes ($9 million increase), and updated longevity assumptions ($1 million increase).

Net participating insurance contract liabilities decreased by $93 million in 2013 due to management actions and assumption changes. The decrease was primarily due to decreases from higher investment returns ($631 million decrease), modelling refinements in Canada ($109 million decrease) and updated expenses and taxes ($88 million decrease), partially offset by increased provisions for future policyholder dividends ($710 million increase), increased provisions for policyholder behaviour ($20 million increase), updated life mortality assumptions ($4 million increase) and updated morbidity assumptions ($1 million increase).

In 2012, the major contributors to the increase in net insurance contract liabilities were the impact of new business ($4,402 million increase) and the normal change in the in-force business ($1,073 million increase) primarily due to the change in fair value.

Net non-participating insurance contract liabilities decreased by $74 million in 2012 due to management actions and assumption changes, including a $138 million decrease in Canada, a $97 million increase in Europe and a $33 million decrease in the United States.

The decrease in Canada was primarily due to updated life insurance mortality ($79 million decrease), updated expenses and taxes ($75 million decrease), modelling refinements across the Canadian segment ($71 million decrease), updated longevity assumptions ($21 million decrease) and updated morbidity assumptions ($9 million decrease), partially offset by provisions for asset and mismatch risk ($66 million increase) and increased provisions for policyholder behaviour in Individual Insurance ($41 million increase).

The increase in Europe was primarily due to updated longevity improvement assumptions ($348 million increase), increased provisions for policyholder behaviour in reinsurance ($109 million increase), increased provisions for expenses and taxes ($36 million increase), modelling refinements ($32 million increase), increased provisions for asset and mismatch risk ($15 million increase) and updated morbidity assumptions ($3 million increase), partially offset by updated base longevity assumptions ($358 million decrease) and updated life insurance mortality ($85 million decrease).

The decrease in the United States was primarily due to updated life mortality ($33 million decrease), updated longevity assumptions ($3 million decrease), decreased provisions for policyholder behaviour ($3 million decrease) and updated expenses and taxes ($1 million decrease), partially offset by provisions for asset and mismatch risk ($7 million increase).

Net participating insurance contract liabilities decreased by $226 million in 2012 due to management actions and assumption changes. The decrease was primarily due to decreases in the provision for future policyholder dividends ($2,078 million decrease), improved Individual Life mortality ($124 million decrease), updated expenses and taxes ($92 million decrease) and modelling refinements in Canada ($10 million decrease), partially offset by lower investment returns ($2,056 million increase), increased provisions for policyholder behaviour ($19 million increase) and updated morbidity assumptions ($3 million increase).

CHANGE IN INVESTMENT CONTRACT LIABILITIES MEASURED AT FAIR VALUE

DECEMBER 31	2013	2012
Balance, beginning of year	739	782
Acquisition of Irish Life [Note 4]	194	–
Normal change in in-force business	(97)	(87)
Investment experience	19	51
Impact of foreign exchange rate changes	34	(7)
Balance, end of year	889	739

The carrying value of investment contract liabilities approximates their fair value. No investment contract liabilities have been reinsured.

NOTE 13 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

PREMIUM INCOME

DECEMBER 31	2013	2012[1]
Direct premiums	18,772	17,379
Assumed reinsurance premiums	4,669	4,897
Total	23,441	22,276

POLICYHOLDER BENEFITS

DECEMBER 31	2013	2012[1]
Direct	13,516	14,589
Assumed reinsurance	4,948	3,265
Total	18,464	17,854

[1] Lifeco reclassified certain comparative figures to conform to the presentation adopted in the current period. This resulted in an increase in assumed reinsurance premiums of $437 million, a decrease to reinsurance fee income of $13 million, offset primarily by an increase in assumed reinsurance policyholder benefits. There was no impact on equity, net earnings or cash flows of the Corporation.

ACTUARIAL ASSUMPTIONS

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. 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.

The methods for arriving at these valuation assumptions are outlined below:

Mortality A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update Lifeco's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. The actuarial standards were amended to remove the requirement that, for life insurance, any reduction in liabilities due to mortality improvement assumptions be offset by an equal amount of provision for adverse deviation. Appropriate provisions have been made for future mortality deterioration on term insurance.

Annuitant mortality is also studied regularly and the results are used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity Lifeco uses industry-developed experience tables modified to reflect emerging Lifeco experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Property and casualty reinsurance Insurance contract liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for property and casualty insurers in Canada. The insurance contract liabilities have been established using cash flow valuation techniques, including discounting. The insurance contract liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, insurance contract liabilities also include an amount for incurred but not reported losses which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated, and adjustments to estimates are reflected in earnings. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.

Investment returns The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (refer to Note 23).

Expenses Contractual policy expenses (e.g., sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under the Canadian Asset Liability Method as inflation is assumed to be correlated with new money interest rates.

NOTE 13 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

Policy termination Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited. Lifeco has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of term for renewable term policies in Canada and Reinsurance. Industry experience has guided Lifeco's assumptions for these products as Lifeco's own experience is very limited.

Utilization of elective policy options There are a wide range of elective options embedded in the policies issued by Lifeco. Examples include term renewals, conversion to whole life insurance (term insurance), settlement annuity purchase at guaranteed rates (deposit annuities) and guarantee resets (segregated fund maturity guarantees). The assumed rates of utilization are based on Lifeco or industry experience when it exists and, when not, on judgment considering incentives to utilize the option. Generally, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is Lifeco's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability impacting shareholder earnings is reflected in the impact of changes in best estimate assumptions above.

RISK MANAGEMENT

Insurance risk Insurance risk is the risk that the insured event occurs and that there are large deviations between expected and actual actuarial assumptions, including mortality, persistency, longevity, morbidity, expense variations and investment returns.

As an insurance company, Lifeco is in the business of accepting risk associated with insurance contract liabilities. Lifeco's objective is to mitigate its exposure to risk arising from these contracts through product design, product and geographical diversification, the implementation of its underwriting strategy guidelines, and through the use of reinsurance arrangements.

The following table provides information about Lifeco's insurance contract liabilities' sensitivities to Lifeco management's best estimate of the approximate impact as a result of changes in assumptions used to determine Lifeco's liability associated with these contracts.

			2013			2012
DECEMBER 31	CHANGES IN ASSUMPTIONS	IMPACT ON LIFECO PROFIT OR LOSS	POWER FINANCIAL'S SHARE	CHANGES IN ASSUMPTIONS	IMPACT ON LIFECO PROFIT OR LOSS	POWER FINANCIAL'S SHARE
Mortality (increase)	2%	(217)	(146)	2%	(208)	(147)
Annuitant mortality (decrease)	2%	(272)	(183)	2%	(274)	(194)
Morbidity (adverse change)	5%	(208)	(140)	5%	(188)	(133)
Investment returns						
Parallel shift in yield curve[1]						
Increase	1%	–	–	1%	n/a	n/a
Decrease	1%	–	–	1%	n/a	n/a
Change in range of interest rates[1]						
Increase	1%	12	8	1%	n/a	n/a
Decrease	1%	(322)	(217)	1%	n/a	n/a
Change in equity markets						
Increase	10%	34	23	10%	18	13
Decrease	10%	(150)	(101)	10%	(96)	(68)
Change in best estimate returns for equities						
Increase	1%	353	237	1%	342	242
Decrease	1%	(392)	(264)	1%	(376)	(266)
Expenses (increase)	5%	(76)	(51)	5%	(56)	(40)
Policy termination (adverse change)	10%	(466)	(313)	10%	(473)	(334)

[1] Due to a change in interest provision methodology in 2013, 2012 sensitivities are not comparable to 2013. Please refer to Note 23.

NOTE 13 INSURANCE AND INVESTMENT CONTRACT LIABILITIES (CONTINUED)

Concentration risk may arise from geographic regions, accumulation of risks and market risks. The concentration of insurance risk before and after reinsurance by geographic region is described below.

	DECEMBER 31, 2013			DECEMBER 31, 2012			JANUARY 1, 2012		
	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET	GROSS LIABILITY	REINSURANCE ASSETS	NET
Canada	55,005	389	54,616	55,134	658	54,476	53,569	869	52,700
United States	28,375	249	28,126	26,298	255	26,043	25,296	294	25,002
Europe	48,683	4,432	44,251	39,280	1,151	38,129	36,702	898	35,804
	132,063	5,070	126,993	120,712	2,064	118,648	115,567	2,061	113,506

Reinsurance risk Maximum limits per insured life benefit amount (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance costs and recoveries as defined by the reinsurance agreement are reflected in the valuation with these costs and recoveries being appropriately calibrated to the direct assumptions.

Reinsurance contracts do not relieve Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Certain of the reinsurance contracts are on a funds withheld basis where Lifeco retains the assets supporting the reinsured insurance contract liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

NOTE 14 OBLIGATION TO SECURITIZATION ENTITIES

IGM 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 IGM retains prepayment risk and certain elements of credit risk. Accordingly, IGM 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.

IGM earns interest on the mortgages and pays interest on the obligations to securitization entities. As part of the CMB transactions, IGM enters into a swap transaction whereby IGM 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 $16 million at December 31, 2013 (a negative fair value of $56 million in 2012).

Under the NHA MBS and CMB Programs, IGM 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 Programs are insured by CMHC or another approved insurer under the program. As part of the ABCP transactions, IGM 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 IGM's other assets for failure to make payments when due. Credit risk is further limited to the extent these mortgages are insured.

	2013			2012		
DECEMBER 31	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET	SECURITIZED MORTGAGES	OBLIGATIONS TO SECURITIZATION ENTITIES	NET
Carrying value						
NHA MBS and CMB Programs	3,803	3,843	(40)	3,285	3,312	(27)
Bank-sponsored ABCP	1,689	1,729	(40)	1,354	1,389	(35)
Total	5,492	5,572	(80)	4,639	4,701	(62)
Fair value	5,659	5,671	(12)	4,757	4,787	(30)

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

NOTE 15 DEBENTURES AND DEBT INSTRUMENTS

	DECEMBER 31, 2013		DECEMBER 31, 2012		JANUARY 1, 2012	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
DEBT INSTRUMENTS						
GREAT-WEST LIFECO INC.						
Commercial paper and other short-term debt instruments with interest rates from 0.24% to 0.33% (0.27% to 0.35% in 2012)	105	105	97	97	100	100
Revolving credit facility with interest equal to LIBOR rate plus 0.75% or U.S. prime rate loan (US$450 million)	477	477	–	–	–	–
Mortgage payable with interest rate of 4% changing to 5% on February 1, 2014, matures April 30, 2014	75	75	–	–	–	–
Term note due October 18, 2015, bearing an interest rate of LIBOR rate plus 0.75%, (US$304 million) unsecured	322	322	301	301	304	308
Revolving credit facility with interest equal to LIBOR rate plus 1% or U.S. prime rate loan (US$200 million)	–	–	198	198	204	204
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	1	1	2	2	3	3
TOTAL DEBT INSTRUMENTS	980	980	598	598	611	615
DEBENTURES						
POWER FINANCIAL CORPORATION						
6.90% debentures, due March 11, 2033, unsecured	250	304	250	324	250	295
GREAT-WEST LIFECO INC.						
5.25% subordinated debentures, including associated fixed floating swap (€200 million)	317	321	–	–	–	–
6.14% debentures due March 21, 2018, unsecured	199	227	199	234	199	229
4.65% debentures due August 13, 2020, unsecured	498	539	498	557	497	522
2.50% debentures due April 18, 2023, (€500 million) unsecured	729	713	–	–	–	–
6.40% subordinated debentures due December 11, 2028, unsecured	100	117	100	117	100	115
6.74% debentures due November 24, 2031, unsecured	192	246	191	256	190	237
6.67% debentures due March 21, 2033, unsecured	391	493	397	512	397	472
6.625% deferrable debentures due November 15, 2034, (US$175 million) unsecured	182	184	170	176	175	170
5.998% debentures due November 16, 2039, unsecured	342	405	342	431	343	383
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and, thereafter, a rate of 2.538% plus the 3-month LIBOR rate, (US$300 million) unsecured	317	328	296	307	310	298
Subordinated debentures due June 21, 2067, bearing an interest rate of 5.691% until June 21, 2017 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 1.49%, unsecured	996	1,097	995	1,097	994	1,028
Subordinated debentures due June 26, 2068, bearing an interest rate of 7.127% until June 26, 2018 and, thereafter, at a rate equal to the Canadian 90-day bankers' acceptance rate plus 3.78%, unsecured	497	583	497	592	497	550
IGM FINANCIAL INC.						
6.58% debentures 2003 Series, due March 7, 2018, unsecured	150	172	150	176	150	175
7.35% debentures 2009 Series, due April 8, 2019, unsecured	375	450	375	466	375	457
6.65% debentures 1997 Series, due December 13, 2027, unsecured	125	146	125	151	125	148
7.45% debentures 2001 Series, due May 9, 2031, unsecured	150	189	150	194	150	189
7.00% debentures 2002 Series, due December 31, 2032, unsecured	175	213	175	220	175	213
7.11% debentures 2003 Series, due March 7, 2033, unsecured	150	185	150	190	150	185
6.00% debentures 2010 Series, due December 10, 2040, unsecured	200	223	200	232	200	220
Debentures held by Lifeco as investments	(40)	(49)	(41)	(51)	(39)	(47)
TOTAL DEBENTURES	6,295	7,086	5,219	6,181	5,238	5,839
	7,275	8,066	5,817	6,779	5,849	6,454

NOTE 15 DEBENTURES AND DEBT INSTRUMENTS (CONTINUED)

The principal payments on debentures and debt instruments in each of the next five years is as follows:

2014	658
2015	322
2016	–
2017	294
2018	350
Thereafter	5,651

NOTE 16 CAPITAL TRUST DEBENTURES

	DECEMBER 31, 2013		DECEMBER 31, 2012		JANUARY 1, 2012	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
CANADA LIFE CAPITAL TRUST						
7.529% capital trust debentures due June 30, 2052, unsecured	150	205	150	216	150	197
6.679% capital trust debentures due June 30, 2052, unsecured	–	–	–	–	300	307
GREAT-WEST LIFE CAPITAL TRUST						
5.995% capital trust debentures due December 31, 2052, unsecured	–	–	–	–	350	363
	150	205	150	216	800	867
Acquisition-related fair value adjustment	13	–	14	–	15	–
	163	205	164	216	815	867

Canada Life Capital Trust (CLCT) redeemed all of its outstanding $300 million principal amount Canada Life Capital Securities – Series A (CLiCS – Series A) on June 29, 2012 at par.

Great-West Life Capital Trust redeemed all of its outstanding $350 million principal amount Great-West Life Capital Trust Securities – Series A on December 31, 2012 at par.

CLCT, a trust established by Canada Life, had issued $150 million of Canada Life Capital Securities – Series B (CLiCS – Series B), the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $150 million.

Distributions and interest on the capital trust securities are classified as financing charges on the statements of earnings (see Note 25).

Subject to regulatory approval, CLCT may redeem the CLiCS – Series B, in whole or in part, at any time.

NOTE 17 OTHER LIABILITIES

	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Bank overdraft	380	448	437
Accounts payable	1,935	1,556	1,651
Dividends and interest payable	362	358	362
Income taxes payable	1,014	684	541
Repurchase agreements	–	225	250
Deferred income reserves	451	427	406
Deposits and certificates	187	163	151
Funds held under reinsurance contracts	270	335	169
Pension and other post-employment benefits [Note 26]	1,194	1,563	1,232
Other	1,105	905	889
	6,898	6,664	6,088

Total other liabilities of $4,763 million as at December 31, 2013 are expected to be settled within 12 months.

NOTE 17 OTHER LIABILITIES (CONTINUED)

DEFERRED INCOME RESERVES

Changes in deferred income reserves of Lifeco are as follows:

DECEMBER 31	2013	2012
Balance, beginning of year	427	406
Additions	70	103
Amortization	(39)	(42)
Foreign exchange	38	8
Disposals	(45)	(48)
Balance, end of year	451	427

NOTE 18 INCOME TAXES

EFFECTIVE INCOME TAX RATE

The Corporation's effective income tax rate is derived as follows:

YEARS ENDED DECEMBER 31	2013	2012
	%	%
Combined statutory Canadian federal and provincial tax rates	26.5	26.5
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(4.4)	(5.4)
Lower effective tax rates on income not subject to tax in Canada	(2.0)	(2.0)
Earnings of investment in associate, and in jointly controlled corporations	(1.0)	(1.0)
Impact of rate changes on deferred income taxes	(0.4)	(0.1)
Tax loss consolidation transaction	(0.2)	–
Other	(0.1)	(2.0)
Effective income tax rate	18.4	16.0

INCOME TAXES

The components of income tax expense recognized in the statements of earnings are:

YEARS ENDED DECEMBER 31	2013	2012
Current taxes		
In respect of the current year	775	623
Other	(11)	(20)
	764	603
Deferred taxes		
Origination and reversal of temporary differences	(18)	(32)
Effect of change in tax rates	(13)	(4)
Recognition of previously unrecognized tax losses and deductible temporary differences	(6)	(22)
Other	(49)	14
	(86)	(44)
	678	559

The following table shows aggregate current and deferred taxes relating to items not recognized in the statements of earnings:

	2013		2012	
DECEMBER 31	OTHER COMPREHENSIVE INCOME	EQUITY	OTHER COMPREHENSIVE INCOME	EQUITY
Current taxes	(14)	–	3	–
Deferred taxes	106	2	(86)	(20)
	92	2	(83)	(20)

NOTE 18 INCOME TAXES (CONTINUED)

DEFERRED TAXES

Deferred taxes are attributable to the following items:

DECEMBER 31	2013	2012
Loss carry forwards	1,360	1,184
Investments	(541)	(839)
Insurance and investment contract liabilities	(518)	(272)
Deferred selling commissions	(184)	(186)
Intangible assets	(52)	77
Other	96	241
	161	205
Presented on the balance sheets as follows:		
Deferred tax assets	1,240	1,223
Deferred tax liabilities	(1,079)	(1,018)
	161	205

A deferred tax asset is recognized for deductible temporary differences and unused tax attributes 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 available to allow the deferred 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 tax assets. The annual financial planning process provides a significant basis for the measurement of deferred tax assets.

Management of the Corporation and of its subsidiaries assess the recoverability of the deferred tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2013 are recoverable.

At December 31, 2013, Lifeco had tax loss carry forwards totalling $4,185 million ($3,600 million in 2012). Of this amount, $3,925 million expires between 2014 and 2033, while $260 million has no expiry date. Lifeco will realize this benefit in future years through a reduction in current income taxes payable.

One of Lifeco's subsidiaries has had a history of recent losses. The subsidiary has a net deferred tax asset balance of $1,184 million (US$1,117 million) as at December 31, 2013 composed principally of net operating losses and future deductions related to goodwill which has been previously impaired for book accounting purposes. Management of Lifeco has concluded that it is probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated United States income tax return will generate sufficient taxable income against which the unused United States losses and deductions will be utilized.

As at December 31, 2013, the Corporation and its subsidiaries have non-capital losses of $213 million ($288 million in 2012) available to reduce future taxable income for which the benefits have not been recognized. These losses expire from 2026 to 2033. In addition, the Corporation and its subsidiaries have capital loss carry forwards of $133 million ($94 million in 2012) that can be used indefinitely to offset future capital gains for which the benefits have not been recognized.

A deferred tax liability has not been recognized in respect of the temporary differences associated with investments in subsidiaries, branches, associate, and jointly controlled corporations as the Corporation and its subsidiaries are able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTE 19 STATED CAPITAL

AUTHORIZED

The authorized capital of Power Financial consists of an unlimited number of First Preferred Shares, issuable in series; an unlimited number of Second Preferred Shares, issuable in series; and an unlimited number of common shares.

ISSUED AND OUTSTANDING

	DECEMBER 31, 2013		DECEMBER 31, 2012		JANUARY 1, 2012	
	NUMBER OF SHARES	STATED CAPITAL	NUMBER OF SHARES	STATED CAPITAL	NUMBER OF SHARES	STATED CAPITAL
FIRST PREFERRED SHARES (Perpetual)						
Series A[i]	4,000,000	100	4,000,000	100	4,000,000	100
Series D[ii]	6,000,000	150	6,000,000	150	6,000,000	150
Series E[iii]	8,000,000	200	8,000,000	200	8,000,000	200
Series F[iv]	6,000,000	150	6,000,000	150	6,000,000	150
Series H[v]	6,000,000	150	6,000,000	150	6,000,000	150
Series I[vi]	8,000,000	200	8,000,000	200	8,000,000	200
Series K[vii]	10,000,000	250	10,000,000	250	10,000,000	250
Series L[viii]	8,000,000	200	8,000,000	200	8,000,000	200
Series M[ix]	7,000,000	175	7,000,000	175	7,000,000	175
Series O[x]	6,000,000	150	6,000,000	150	6,000,000	150
Series P[xi]	11,200,000	280	11,200,000	280	11,200,000	280
Series R[xii]	10,000,000	250	10,000,000	250	–	–
Series S[xiii]	12,000,000	300	–	–	–	–
Series T[xiv]	8,000,000	200	–	–	–	–
		2,755		2,255		2,005
COMMON SHARES[xv]	711,173,680	721	709,104,080	664	708,173,680	639
COMMON SHARES						
Balance, beginning of year	709,104,080	664	708,173,680	639	708,173,680	639
Issued under Stock Option Plan	2,069,600	57	930,400	25	–	–
Balance, end of year	711,173,680	721	709,104,080	664	708,173,680	639

[i] The Series A First Preferred Shares are entitled to an annual cumulative dividend, payable quarterly at a floating rate equal to 70% of the prime rate of two major Canadian chartered banks and are redeemable, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[ii] The 5.50% Non-Cumulative First Preferred Shares, Series D are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.375 per share per annum, payable quarterly. The Corporation may redeem for cash the Series D First Preferred Shares, in whole or in part, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[iii] The 5.25% Non-Cumulative First Preferred Shares, Series E are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.3125 per share per annum, payable quarterly. The Corporation may redeem for cash the Series E First Preferred Shares, in whole or in part, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[iv] The 5.90% Non-Cumulative First Preferred Shares, Series F are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.475 per share per annum, payable quarterly. The Corporation may redeem for cash the Series F First Preferred Shares, in whole or in part, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[v] The 5.75% Non-Cumulative First Preferred Shares, Series H are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.4375 per share per annum, payable quarterly. The Corporation may redeem for cash the Series H First Preferred Shares, in whole or in part, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[vi] The 6.00% Non-Cumulative First Preferred Shares, Series I are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.50 per share per annum, payable quarterly. The Corporation may redeem for cash the Series I First Preferred Shares, in whole or in part, at the Corporation's option, at $25.00 per share, together with all declared and unpaid dividends to, but excluding, the date of redemption.

[vii] The 4.95% Non-Cumulative First Preferred Shares, Series K are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.2375 per share per annum, payable quarterly. The Corporation may redeem for cash the Series K First Preferred Shares, in whole or in part, at the Corporation's option, at $25.25 per share if redeemed prior to October 31, 2014, and $25.00 per share if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

NOTE 19 STATED CAPITAL (CONTINUED)

[viii] The 5.10% Non-Cumulative First Preferred Shares, Series L are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.2750 per share per annum, payable quarterly. The Corporation may redeem for cash the Series L First Preferred Shares, in whole or in part, at the Corporation's option, at $25.50 per share if redeemed prior to October 31, 2014, $25.25 per share if redeemed thereafter and prior to October 31, 2015, and $25.00 per share if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[ix] The 6.00% Non-Cumulative First Preferred Shares, Series M were entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.50 per share per annum, payable quarterly. On January 31, 2014 and on January 31 every five years thereafter, the Corporation was permitted to redeem for cash the Series M First Preferred shares, in whole or in part, at the Corporation's option, at $25.00 per share plus all declared and unpaid dividends to the date fixed for redemption, or the Series M First Preferred Shares were convertible to Non-Cumulative Floating Rate First Preferred Shares, Series N, at the option of the holders on January 31, 2014 or on January 31 every five years thereafter. On January 31, 2014, the Corporation redeemed all of its 6.00% Non-Cumulative First Preferred Shares, Series M for cash consideration of $175 million.

[x] The 5.80% Non-Cumulative First Preferred Shares, Series O are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.45 per share per annum, payable quarterly. On and after October 31, 2014, the Corporation may redeem for cash the Series O First Preferred Shares, in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to October 31, 2015, $25.75 per share if redeemed thereafter and prior to October 31, 2016, $25.50 per share if redeemed thereafter and prior to October 31, 2017, $25.25 per share if redeemed thereafter and prior to October 31, 2018, and $25.00 per share if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[xi] The 4.40% Non-Cumulative First Preferred Shares, Series P are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.10 per share per annum, payable quarterly, during the period ending, but excluding, January 31, 2016. Thereafter, during the "Subsequent Fixed Rate Periods" (that is, for the initial Subsequent Fixed Rate Period, the period from and including January 31, 2016 up to but excluding January 31, 2021 and for each succeeding Subsequent Fixed Rate Period, the period commencing on the day immediately following the end of the immediately preceding Subsequent Fixed Rate Period to, but excluding, January 31 in the fifth year thereafter), the Series P First Preferred Shares have fixed non-cumulative preferential dividends equal to a product of $25.00 and the rate of interest equal to the sum of the Government of Canada Yield on the applicable "Fixed Rate Calculation Date" (that is, for any Subsequent Fixed Rate Period, the 30th day prior to the first day of the applicable Subsequent Fixed Rate Period) plus 1.60 per cent, payable quarterly. On January 31, 2016 and on January 31 every five years thereafter, the Corporation may redeem for cash the Series P First Preferred Shares, in whole or in part, at the Corporation's option, at $25.00 per share plus all declared and unpaid dividends to the date fixed for redemption, or the Series P First Preferred Shares are convertible to Non-Cumulative Floating Rate First Preferred Shares, Series Q, at the option of the holders on January 31, 2016 or on January 31 every five years thereafter.

[xii] The 5.50% Non-Cumulative First Preferred Shares, Series R are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.375 per share per annum, payable quarterly. On and after April 30, 2017, the Corporation may redeem for cash the Series R First Preferred Shares, in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to April 30, 2018, $25.75 per share if redeemed thereafter and prior to April 30, 2019, $25.50 per share if redeemed thereafter and prior to April 30, 2020, $25.25 per share if redeemed thereafter and prior to April 30, 2021, and $25.00 per share if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

[xiii] In the first quarter of 2013, the Corporation issued 12,000,000 4.80% Non-Cumulative First Preferred Shares, Series S for gross cash proceeds of $300 million. The Series S First Preferred Shares are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.20 per share per annum, payable quarterly. On and after April 30, 2018, the Corporation may redeem for cash the Series S First Preferred Shares, in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to April 30, 2019, $25.75 per share if redeemed thereafter and prior to April 30, 2020, $25.50 per share if redeemed thereafter and prior to April 30, 2021, $25.25 per share if redeemed thereafter and prior to April 30, 2022, and $25.00 per share if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption. Share issue costs of $9 million in connection with the Series S First Preferred Shares were charged to retained earnings in the year ended December 31, 2013.

[xiv] In the fourth quarter of 2013, the Corporation issued 8,000,000 4.20% Non-Cumulative First Preferred Shares, Series T for gross cash proceeds of $200 million. The Series T First Preferred Shares are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.05 per share per annum, payable quarterly during the period ending, but excluding, January 31, 2019. Thereafter, during the "Subsequent Fixed Rate Periods" (that is, for the initial Subsequent Fixed Rate Period, the period from and including January 31, 2019 up to, but excluding January 31, 2024 and for each succeeding Subsequent Fixed Rate Period, the period commencing on the day immediately following the end of the immediately preceding Subsequent Fixed Rate Period to, but excluding January 31 in the fifth year thereafter), the Series T First Preferred Shares have fixed non-cumulative preferential dividends equal to a product of $25.00 and the rate of interest equal to the sum of the Government of Canada Yield on the applicable "Fixed Rate Calculation Date" (that is, for any Subsequent Fixed Rate Period, the 30th day prior to the first day of the applicable Subsequent Fixed Rate Period) plus 2.37 per cent, payable quarterly. On January 31, 2019 and on January 31 every five years thereafter, the Corporation may redeem for cash the Series T First Preferred Shares, in whole or in part, at the Corporation's option, at $25.00 per share plus all declared and unpaid dividends to the date fixed for redemption, or the Series T First Preferred Shares are convertible to Non-Cumulative Floating Rate First Preferred Shares, Series U, at the option of the holders on January 31, 2019 or on January 31 every five years thereafter. Share issue costs of $5 million in connection with the Series T Preferred Shares were charged to retained earnings in the year ended December 31, 2013.

[xv] During the year 2013, 2,069,600 common shares (930,400 in 2012) were issued under the Corporation's Employee Stock Option Plan for a consideration of $45 million ($20 million in 2012).

Dividends declared on the Corporation's common shares in 2013 amounted to $1.40 per share ($1.40 per share in 2012).

NOTE 20 SHARE-BASED COMPENSATION

STOCK OPTION PLAN

Under Power Financial's Employee Stock Option Plan, 14,421,600 additional common shares are reserved for issuance. The plan requires that the exercise price under the option must not be less than the market value of a share on the date of the grant of the option. Generally, options granted vest on a delayed basis over periods beginning no earlier than one year from the date of grant and no later than five years from the date of grant. Options recently granted, which are not fully vested, have the following vesting conditions:

YEAR OF GRANT	OPTIONS	VESTING CONDITIONS
2010	679,525	Vest equally over a period of five years
2010	38,293	Vest 50% after three years and 50% after four years
2011	743,080	Vest equally over a period of five years
2011	34,423	Vest 50% after three years and 50% after four years
2012	598,325	Vest equally over a period of five years
2012	70,254	Vest 50% after three years and 50% after four years
2013	702,713	Vest equally over a period of five years
2013	53,476	Vest 50% after three years and 50% after four years

A summary of the status of Power Financial's Employee Stock Option Plan as at December 31, 2013 and 2012, and changes during the years ended on those dates is as follows:

	2013		2012	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
		$		$
Outstanding at beginning of year	8,835,797	28.32	9,097,618	27.85
Granted	756,189	32.44	668,579	25.31
Exercised	(2,069,600)	21.65	(930,400)	21.65
Outstanding at end of year	7,522,386	30.56	8,835,797	28.32
Options exercisable at end of year	5,468,569	31.29	6,958,267	28.73

The following table summarizes information about stock options outstanding at December 31, 2013:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OPTIONS	WEIGHTED-AVERAGE REMAINING LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
$		(YRS)	$		$
25.07 – 26.97	1,575,467	7.6	25.87	603,079	26.13
28.13 – 29.95	1,532,879	5.5	28.96	1,238,695	29.12
30.18 – 31.59	602,383	5.2	31.42	527,370	31.55
32.24	2,015,000	1.4	32.24	2,015,000	32.24
32.46 – 32.58	741,006	9.4	32.57	28,774	32.46
34.45 – 37.13	1,055,651	4.2	34.81	1,055,651	34.81
	7,522,386	5.0	30.56	5,468,569	31.29

NOTE 20 SHARE-BASED COMPENSATION (CONTINUED)

Compensation expense Lifeco and IGM have also established stock option plans pursuant to which options may be granted to certain officers and employees. Compensation expense is recorded for options granted under the Corporation's and its subsidiaries' stock option plans based on the fair value of the options at the grant date, amortized over the vesting period. Total compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to $15 million in 2013 ($13 million in 2012).

During the year ended December 31, 2013, Power Financial granted 756,189 options (668,579 options in 2012) under its Employee Stock Option Plan. The fair value of these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2013	2012
Dividend yield	5.0%	4.8%
Expected volatility	18.3%	18.7%
Risk-free interest rate	2.3%	1.7%
Expected life (years)	9	9
Fair value per stock option ($/option)	$2.78	$2.08
Weighted-average exercise price ($/option)	$32.44	$25.31

Expected volatility has been estimated based on the historical volatility of the Corporation's share price over nine years, which is reflective of the expected option life.

PERFORMANCE SHARE UNIT PLAN

In 2013, Power Financial introduced a Performance Share Unit (PSU) plan for selected employees and officers (participants) to assist in retaining and further aligning the interests of participants with those of the shareholders. Under the terms of the plan, PSUs may be awarded annually and are subject to time and performance vesting conditions. The value of each PSU is based on the share price of the Corporation's common shares. The PSUs are cash settled and vest over a three-year period. Participants can elect at the time of grant to receive a portion of their PSUs in the form of performance deferred share units (PDSU) which also vest over a three-year period. PDSUs are redeemable when a participant is no longer an employee of the Corporation or any of its affiliates, or in the event of the death of the participant, by a lump sum payment based on the value of the PDSU at that time. Additional PSUs and PDSUs are issued in respect of dividends payable on common shares based on the value of the PSU or PDSU at the dividend payment date. The Corporation recorded compensation expense, excluding the impact of hedging, of $1.3 million in 2013 and a liability of $1.3 million as at December 31, 2013.

DEFERRED SHARE UNIT PLAN

On October 1, 2000, Power Financial established a Deferred Share Unit Plan for its Directors to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this plan, each Director participating in the plan will receive half of his or her annual retainer in the form of deferred share units and may elect to receive the remainder of his or her annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the common shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director will receive additional deferred share units in respect of dividends payable on the common shares, based on the value of a deferred share unit on the date on which the dividends were paid on the common shares. A deferred share unit is payable, at the time a Director's membership on the Board is terminated or in the event of the death of a Director, by a lump-sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2013, the value of the deferred share units outstanding was $18 million ($13 million in 2012). Alternatively, Directors may participate in the Directors Share Purchase Plan.

EMPLOYEE SHARE PURCHASE PROGRAM

Effective May 1, 2000, an Employee Share Purchase Program was implemented, giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of Power Corporation of Canada on the open market and to have Power Financial invest, on the employee's behalf, up to an equal amount. The amount paid on behalf of employees was $0.1 million in 2013 ($0.1 million in 2012).

OTHER SHARE-BASED AWARDS OF SUBSIDIARIES

The subsidiaries of the Corporation also establish other share-based awards for their directors, management and employees. Some of these share-base awards are cash settled and included within other liabilities on the balance sheets. The compensation expense related to these subsidiary share-based awards is recorded in operating and administrative expenses on the statements of earnings.

NOTE 21 NON-CONTROLLING INTERESTS

The Corporation has controlling equity interests in Lifeco and IGM as at December 31, 2013, December 31, 2012 and January 1, 2012.

The non-controlling interests of Lifeco and IGM and their subsidiaries reflected in the balance sheets are as follows:

			2013			2012
DECEMBER 31	LIFECO	IGM	TOTAL	LIFECO	IGM	TOTAL
Non-controlling interests, beginning of year	8,327	1,775	10,102	7,300	1,831	9,131
Earnings allocated to non-controlling interests	683	301	984	892	301	1,193
Other comprehensive income (loss) allocated to non-controlling interests	304	10	314	(90)	(16)	(106)
Dividends	(472)	(213)	(685)	(440)	(219)	(659)
Issuance of preferred shares	–	–	–	650	–	650
Repurchase of preferred shares	(230)	–	(230)	–	–	–
Change in ownership interest	501	4	505	15	(122)	(107)
Non-controlling interests, end of year	9,113	1,877	10,990	8,327	1,775	10,102

The carrying value of non-controlling interests as at December 31, 2013 and 2012 consists of the following:

			2013			2012
DECEMBER 31	LIFECO	IGM	TOTAL	LIFECO	IGM	TOTAL
Common shareholders	4,445	1,727	6,172	3,332	1,625	4,957
Preferred shareholders	2,314	150	2,464	2,544	150	2,694
Participating shareholders	2,354	–	2,354	2,451	–	2,451
	9,113	1,877	10,990	8,327	1,775	10,102

Change in ownership in Lifeco in 2013 is mainly attributable to the issuance of Lifeco's common shares in regards to the acquisition of Irish Life (Note 4). Other changes in ownership in 2013 and 2012 are due to the issuance of common shares under stock option plans as well as the repurchase of common shares by subsidiaries.

As at December 31, 2013, Power Financial and IGM held 67.0% and 4.0%, respectively, of Lifeco's common shares, representing approximately 65.0% of the voting rights attached to the outstanding Lifeco voting shares.

Lifeco and IGM's financial information as at and for the year ended December 31, 2013 can be obtained in their publicly available financial statements.

NOTE 22 CAPITAL MANAGEMENT

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

> provide sufficient financial flexibility to pursue its growth strategy and support its group companies and other investments;

> maintain an appropriate credit rating to ensure stable access to the capital markets; and

> provide attractive long-term returns to shareholders of the Corporation.

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

The capital structure of the Corporation consists of preferred shares, debentures and equity composed of stated capital, retained earnings and non-controlling interests in the equity of subsidiaries of the Corporation. The Corporation utilizes perpetual preferred shares as a permanent and cost-effective source of capital. The Corporation considers itself to be a long-term investor and as such holds positions in long-term investments as well as cash and short-term investments for liquidity purposes.

Whereas the Corporation itself is not subject to externally imposed regulatory capital requirements, certain of the Corporation's major operating subsidiaries (Lifeco and IGM) are subject to regulatory capital requirements and they manage their capital as described below.

LIFECO

Lifeco manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of Lifeco'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 Lifeco ensuring stable access to capital markets; and

> to provide an efficient capital structure to maximize shareholder value in the context of Lifeco's operational risks and strategic plans.

Lifeco has established policies and procedures designed to identify, measure and report all material risks. Management of Lifeco is responsible for establishing capital management procedures for implementing and monitoring the capital plan.

NOTE 22 CAPITAL MANAGEMENT (CONTINUED)

Lifeco's subsidiaries Great-West Life, Great-West Life & Annuity and Canada Life UK are subject to minimum regulatory capital requirements. Lifeco's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate:

- In Canada, the Office of the Superintendent of Financial Institutions 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 (MCCSR). As at December 31, 2013, the MCCSR ratio for Great-West Life was 223% (207% at December 31, 2012).
- At December 31, 2013, the Risk-Based Capital ratio (RBC) of Great-West Life & Annuity, Lifeco's regulated U.S. operating company, was estimated to be 480% of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Life & Annuity reports its RBC ratio annually to U.S. insurance regulators.
- In the United Kingdom, Canada Life UK is required to satisfy the capital resources requirements set out in the Integrated Prudential Sourcebook, part of the Prudential Regulatory Authority Handbook. The capital requirements are prescribed by a formulaic capital requirement (Pillar 1) and an individual capital adequacy framework which requires an entity to self-assess an appropriate amount of capital it should hold, based on the risks encountered from its business activities. At the end of 2013, Canada Life UK complied with the capital resource requirements in the United Kingdom.
- Other foreign operations and foreign subsidiaries of Lifeco are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2013 and 2012, Lifeco maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

IGM FINANCIAL

IGM's capital management objective is to maximize shareholder returns while ensuring that IGM is capitalized in a manner which appropriately supports regulatory capital requirements, working capital needs and business expansion. IGM's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet.

IGM subsidiaries subject to regulatory capital requirements include investment dealers, mutual fund dealers, exempt market dealers, portfolio managers, investment fund managers and a trust company. IGM subsidiaries are required to maintain minimum levels of capital based on either working capital, liquidity or shareholders' equity. IGM subsidiaries have complied with all regulatory capital requirements.

NOTE 23 RISK MANAGEMENT

The Corporation and its subsidiaries have established policies, guidelines or procedures designed to identify, measure, monitor and mitigate all material risks associated with financial instruments. The key risks related to financial instruments are liquidity risk, credit risk and market risk.

- Liquidity risk is the risk that the Corporation and its subsidiaries will not be able to meet all cash outflow obligations as they come due.
- Credit risk is the potential for financial loss to the Corporation and its subsidiaries if a counterparty in a transaction fails to meet its obligations.
- 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. Market factors include three types of risks: currency risk, interest rate risk and equity price risk.
  - Currency risk relates to the Corporation, its subsidiaries and its jointly controlled corporations and associate operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.
  - Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.
  - Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

Management of the Corporation and its subsidiaries are responsible for establishing capital management procedures for implementing and monitoring their capital plans. The Board of Directors of the Corporation and the boards of directors of its subsidiaries review and approve all capital transactions undertaken by the respective managements.

This note includes 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 tax rates and other market factors;
- interactions among these factors and assumptions when more than one changes; and
- the general limitations of 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 Corporation cannot provide assurance that the actual impact on net earnings attributed to shareholders will be as indicated.

POWER FINANCIAL

LIQUIDITY RISK

Power Financial is a holding company. As such, corporate cash flows from operations, before payment of dividends to its common and preferred shareholders, are principally made up of dividends received from its subsidiaries and jointly controlled corporation, and income from investments, less operating expenses, financing charges and income taxes. The ability of Lifeco and IGM, which are also holding companies, to meet their obligations and pay dividends depends in particular upon receipt of sufficient funds from their own subsidiaries.

Power Financial seeks to maintain a sufficient level of liquidity to meet all its cash flow requirements. In addition, Power Financial and its parent, Power Corporation of Canada, jointly have a $100 million uncommitted line of credit with a Canadian chartered bank. Power Corporation and Power Financial never accessed the uncommitted line of credit in the past; however, any advances made by the bank under the uncommitted line of credit would be at the bank's sole discretion.

Principal payments on debentures (other than those of Lifeco and IGM discussed below) of $250 million due after five years represent the only significant contractual liquidity requirement of Power Financial.

Power Financial's liquidity position and its management of liquidity risk have not changed materially since December 31, 2012.

CREDIT RISK

Cash and cash equivalents, fixed income securities, and derivatives are subject to credit risk. The Corporation mitigates credit risk on these financial instruments by adhering to its Investment Policy, which outlines credit risk parameters and concentration limits.

Cash and cash equivalents amounting to $470 million and fixed income securities amounting to $455 million consist primarily of bonds, bankers' acceptances and highly liquid temporary deposits with Canadian chartered banks as well as bonds and short-term securities of, or guaranteed by, the Canadian government. The Corporation regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value.

Derivatives continue to be utilized on a basis consistent with the risk management guidelines of the Corporation and are monitored by the Corporation for effectiveness as economic hedges even if specific hedge accounting requirements are not met. The Corporation regularly reviews the credit ratings of derivative financial instrument counterparties. Derivative contracts are over-the-counter traded with counterparties that are highly rated financial institutions.

In 2013, the Corporation entered into other derivative contracts which consist primarily of an equity put option on the S&P 500 related to a macro capital hedge as well as total return swaps to hedge-deferred compensation arrangements. The fair value of the equity put option was $3 million on an outstanding notional amount of $3.5 billion at December 31, 2013. The fair value of the total return swaps was $1 million on an outstanding notional amount of $5 million at December 31, 2013. The exposure to credit risk, net of collateral received, was $1 million at December 31, 2013.

MARKET RISK

Currency risk Power Financial's financial instruments are essentially cash and cash equivalents, fixed income securities and long-term debt. In managing its own cash and cash equivalents, Power Financial may hold cash balances denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial may from time to time enter into currency-hedging transactions with highly rated financial institutions. As at December 31, 2013, essentially all of Power Financial's cash and cash equivalents were denominated in Canadian dollars or in foreign currencies with currency hedges in place.

Power Financial is exposed through Parjointco to foreign exchange risk as a result of Parjointco's investment in Pargesa, a company whose functional currency is the Swiss franc. In accordance with IFRS, foreign currency translation gains and losses from Pargesa are recorded in other comprehensive income.

Interest rate risk Power Financial's financial instruments are essentially cash and cash equivalents, fixed income securities and long-term debt that do not have significant exposure to interest rate risk.

Equity price risk Power Financial's financial instruments are essentially cash and cash equivalents, fixed income securities and long-term debt that do not have exposure to equity price risk.

Pargesa indirectly holds substantial investments classified as available for sale, therefore unrealized gains and losses on these investments are recorded in other comprehensive income until realized. These investments are reviewed periodically to determine whether there is objective evidence of an impairment in value.

LIFECO

The risk committee of the board of directors of Lifeco is responsible for the oversight of Lifeco's key risks.

LIQUIDITY RISK

The following policies and procedures are in place to manage liquidity risk:

> Lifeco 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. Approximately 69% (70% in 2012) of insurance and investment contract liabilities are non-cashable prior to maturity or subject to market value adjustments.

> Management of Lifeco monitors the use of lines of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.

> Management of Lifeco 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. Lifeco maintains $350 million of liquidity at the Lifeco level through committed lines of credit with a Canadian chartered bank. As well, Lifeco maintains a $150 million liquidity facility at Great-West Life, a US$500 million revolving credit agreement with a syndicate of banks for use by Putnam, a US$304 million non-revolving term loan facility provided for Putnam by a syndicate of banks and a US$50 million line of credit at Great-West Financial.

In the normal course of business, Lifeco enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of Lifeco's financial liabilities.

NOTE 23 RISK MANAGEMENT (CONTINUED)

	PAYMENTS DUE BY PERIOD						
DECEMBER 31, 2013	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	AFTER 5 YEARS	TOTAL
Debentures and other debt instruments	658	322	–	294	200	4,283	5,757
Capital trust debentures[1]	–	–	–	–	–	150	150
Purchase obligations	61	33	28	25	17	33	197
Pension contributions	168	–	–	–	–	–	168
	887	355	28	319	217	4,466	6,272

[1] Payments due have not been reduced to reflect that Lifeco held capital trust securities of $37 million principal amount ($47 million carrying value).

CREDIT RISK

The following policies and procedures are in place to manage credit risk:

> Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.

> Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.

> Investment guidelines also specify collateral requirements.

> Portfolios are monitored continuously, and reviewed regularly with the risk committee of Lifeco and the investment committee of the board of directors of Lifeco.

> Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators.

> Lifeco is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.

> Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the board of directors of Lifeco. Management of Lifeco continuously monitors and performs an assessment of the creditworthiness of reinsurers.

Maximum exposure to credit risk for Lifeco The following table summarizes Lifeco's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Cash and cash equivalents	2,791	1,895	2,056
Bonds			
Fair value through profit or loss	70,144	64,865	61,723
Available for sale	7,915	6,782	6,888
Loans and receivables	11,855	10,934	9,744
Mortgage loans	19,063	17,875	17,432
Loans to policyholders	7,332	7,082	7,162
Funds held by ceding insurers[1]	10,832	10,599	9,978
Reinsurance assets	5,070	2,064	2,061
Interest due and accrued	1,242	1,098	1,108
Accounts receivable	1,248	1,065	849
Premiums in course of collection	578	484	422
Trading account assets	376	144	141
Other financial assets[2]	831	754	607
Derivative assets	593	997	968
Total balance sheet maximum credit exposure	139,870	126,638	121,139

[1] Includes $9,848 million as at December 31, 2013 ($9,951 million at December 31, 2012 and $9,411 million at January 1, 2012) of funds held by ceding insurers where Lifeco retains the credit risk of the assets supporting the liabilities ceded (see Note 7).

[2] Includes items such as current income taxes receivable and miscellaneous other assets of Lifeco.

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented by regarding the acceptability of types of collateral and the valuation parameters. Management of Lifeco monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Lifeco has $19 million of collateral received as at December 31, 2013 ($25 million as at December 31, 2012) relating to derivative assets.

Concentration of credit risk for Lifeco 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. The characteristics of such debtors are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

NOTE 23 RISK MANAGEMENT (CONTINUED)

The following table provides details of the carrying value of bonds of Lifeco by issuer, by industry sector and geographic distribution:

DECEMBER 31, 2013	CANADA	UNITED STATES	EUROPE	TOTAL
Bonds issued or guaranteed by:				
Canadian federal government	4,276	3	51	4,330
Provincial, state and municipal governments	5,739	2,028	52	7,819
U.S. Treasury and other U.S. agencies	297	3,827	902	5,026
Other foreign governments	130	22	11,216	11,368
Government-related	2,641	–	1,553	4,194
Supranationals	399	7	704	1,110
Asset-backed securities	2,677	3,115	860	6,652
Residential mortgage-backed securities	26	307	189	522
Banks	2,012	331	2,846	5,189
Other financial institutions	791	1,620	2,154	4,565
Basic materials	278	978	272	1,528
Communications	490	222	603	1,315
Consumer products	1,807	2,198	1,882	5,887
Industrial products/services	919	1,052	538	2,509
Natural resources	1,056	665	509	2,230
Real estate	1,021	140	2,249	3,410
Transportation	1,726	827	703	3,256
Utilities	4,715	3,703	3,433	11,851
Miscellaneous	1,314	970	389	2,673
Total long-term bonds	32,314	22,015	31,105	85,434
Short-term bonds	3,321	76	1,083	4,480
	35,635	22,091	32,188	89,914

DECEMBER 31, 2012	CANADA	UNITED STATES	EUROPE	TOTAL
Bonds issued or guaranteed by:				
Canadian federal government	4,873	3	43	4,919
Provincial, state and municipal governments	6,454	1,881	61	8,396
U.S. Treasury and other U.S. agencies	305	3,421	976	4,702
Other foreign governments	151	29	8,044	8,224
Government-related	2,585	–	1,205	3,790
Supranationals	453	11	289	753
Asset-backed securities	2,587	3,117	830	6,534
Residential mortgage-backed securities	16	452	165	633
Banks	2,140	359	2,317	4,816
Other financial institutions	846	1,578	1,964	4,388
Basic materials	252	724	231	1,207
Communications	499	181	553	1,233
Consumer products	1,903	1,975	1,867	5,745
Industrial products/services	873	984	323	2,180
Natural resources	1,100	665	565	2,330
Real estate	850	–	1,739	2,589
Transportation	1,747	696	598	3,041
Utilities	4,257	3,317	3,342	10,916
Miscellaneous	1,316	856	312	2,484
Total long-term bonds	33,207	20,249	25,424	78,880
Short-term bonds	2,388	358	955	3,701
	35,595	20,607	26,379	82,581

NOTE 23 RISK MANAGEMENT (CONTINUED)

JANUARY 1, 2012	CANADA	UNITED STATES	EUROPE	TOTAL
Bonds issued or guaranteed by:				
Canadian federal government	4,328	2	42	4,372
Provincial, state and municipal governments	6,430	1,980	53	8,463
U.S. Treasury and other U.S. agencies	271	2,857	1,006	4,134
Other foreign governments	185	25	8,216	8,426
Government-related	2,110	–	955	3,065
Supranationals	443	12	211	666
Asset-backed securities	2,696	3,401	803	6,900
Residential mortgage-backed securities	26	638	146	810
Banks	2,168	416	1,858	4,442
Other financial institutions	1,137	1,449	1,615	4,201
Basic materials	233	748	214	1,195
Communications	508	221	501	1,230
Consumer products	1,848	1,813	1,771	5,432
Industrial products/services	695	825	212	1,732
Natural resources	1,127	560	554	2,241
Real estate	608	–	1,610	2,218
Transportation	1,721	672	624	3,017
Utilities	3,792	2,689	3,158	9,639
Miscellaneous	1,207	814	277	2,298
Total long-term bonds	31,533	19,122	23,826	74,481
Short-term bonds	2,980	323	571	3,874
	34,513	19,445	24,397	78,355

The following table provides details of the carrying value of mortgage loans of Lifeco by geographic location:

DECEMBER 31, 2013	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	1,758	3,435	6,942	12,135
United States	–	1,052	2,504	3,556
Europe	–	325	3,047	3,372
	1,758	4,812	12,493	19,063

DECEMBER 31, 2012	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	1,676	3,250	6,982	11,908
United States	–	921	2,139	3,060
Europe	–	187	2,720	2,907
	1,676	4,358	11,841	17,875

JANUARY 1, 2012	SINGLE-FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL	COMMERCIAL	TOTAL
Canada	1,591	3,407	7,022	12,020
United States	–	811	1,999	2,810
Europe	79	108	2,415	2,602
	1,670	4,326	11,436	17,432

NOTE 23 RISK MANAGEMENT (CONTINUED)

Asset quality

BOND PORTFOLIO QUALITY	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
AAA	30,626	29,302	29,612
AA	15,913	13,463	12,525
A	25,348	23,812	22,717
BBB	16,809	14,662	12,399
BB and lower	1,218	1,342	1,102
Total bonds	89,914	82,581	78,355

DERIVATIVE PORTFOLIO QUALITY	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Over-the-counter contracts (counterparty credit ratings):			
AAA	8	9	12
AA	86	106	361
A	499	882	595
Total	593	997	968

Loans of Lifeco past due, but not impaired Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management of Lifeco has reasonable assurance of collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Less than 30 days	6	12	3
30–90 days	–	–	1
Greater than 90 days	2	4	1
Total	8	16	5

The following outlines the future asset credit losses provided for in insurance and investment contract liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Participating	999	892	852
Non-participating	1,796	1,667	1,648
	2,795	2,559	2,500

MARKET RISK

Currency risk For Lifeco, if the assets backing insurance and investment contract liabilities are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases. Lifeco has net investments in foreign operations. In addition, Lifeco'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 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 Lifeco's total share capital and surplus. Correspondingly, Lifeco's book value per share and capital ratios monitored by rating agencies are also impacted. The following policies and procedures are in place to mitigate Lifeco's exposure to currency risk:

- Lifeco uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented investment guidelines include maximum tolerances for unhedged currency mismatch exposures.
- Foreign currency assets acquired to back liabilities are normally converted back to the currency of the liability using foreign exchange contracts.
- 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.

NOTE 23 RISK MANAGEMENT (CONTINUED)

Interest rate risk The following policies and procedures are in place to mitigate exposure to interest rate risk:

> Lifeco utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.

> Interest rate risk is managed by investing in assets that are suitable for the products sold.

> Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), Lifeco generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.

> For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain cash flows, such as long-tail cash flows, a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.

> For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments or equities, as described below.

> The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

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.

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.19% (0.18% in 2012). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

Testing under several interest rate scenarios (including increasing and decreasing 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.

Effective January 1, 2013, Lifeco refined its methodology for estimating interest rate provisions. The total provision was realigned into provisions designed to cover shorter-term modelling risks and those to cover inherent long-term modelling and cash flow mismatch risks, with no net impact on total provisions upon realignment. The realignment, however, did have an impact on the pattern of expected emergence of these provisions into net earnings. This realignment increased 2013 annual net earnings by approximately $74 million after tax compared to 2012 on the prior methodology.

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 Lifeco's view of the range of interest rates to be covered by the provisions. If sustained however, the parallel shift could impact Lifeco's range of scenarios covered.

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

> The effect of an immediate 1% parallel increase in the yield curve on the prescribed scenarios would not change the total provision for interest rates.

> The effect of an immediate 1% parallel decrease in the yield curve on the prescribed scenarios would not change the total provision for interest rates.

Another way of measuring the interest rate risk associated with this assumption is to determine the effect on the insurance and investment contract liabilities impacting the shareholders earnings of Lifeco of a 1% change in Lifeco's view of the range of interest rates to be covered by these provisions.

> The effect of an immediate 1% increase in the low and high end of the range of interest rates recognized in the provisions would be to decrease these insurance and investment contract liabilities by approximately $33 million, causing an increase in net earnings of Lifeco of approximately $12 million (Power Financial's share – $8 million).

> The effect of an immediate 1% decrease in the low and high end of the range of interest rates recognized in the provisions would be to increase these insurance and investment contract liabilities by approximately $481 million, causing a decrease in net earnings of Lifeco of approximately $322 million (Power Financial's share – $217 million).

Equity price risk For Lifeco, 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, Lifeco 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 longtail cash flows. Generally these liabilities will fluctuate in line with equity market values. A 10% increase in equity markets would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately $43 million, causing an increase in net earnings of Lifeco of approximately $34 million (Power Financial's share – $23 million). A 10% decrease in equity markets would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $192 million, causing a decrease in net earnings of Lifeco of approximately $150 million (Power Financial's share – $101 million).

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows. A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately $458 million, causing an increase in net earnings of Lifeco of approximately $353 million (Power Financial's share – $237 million). A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $514 million, causing a decrease in net earnings of Lifeco of approximately $392 million (Power Financial's share – $264 million).

NOTE 23 RISK MANAGEMENT (CONTINUED)

IGM FINANCIAL

LIQUIDITY RISK

IGM's liquidity management practices include: controls over liquidity management processes; stress testing of various operating scenarios; and oversight over liquidity management by committees of the board of directors of IGM.

A key liquidity requirement for IGM is the funding of commissions paid on the sale of mutual funds. Commissions on the sale of mutual funds continue to be paid from operating cash flows.

IGM also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, residential mortgages are sold or securitized to:

> Investors Mortgage and Short Term Income Fund and Investors Canadian Corporate Bond Fund;

> third parties, including Canada Mortgage and Housing Corporation (CMHC) or Canadian bank-sponsored securitization trusts; or

> institutional investors through private placements.

Certain subsidiaries of IGM are approved issuers of National Housing Act Mortgage-Backed Securities (NHA MBS) and approved sellers into the Canada Mortgage Bond Program (CMB Program). This issuer and seller status provides IGM with additional funding sources for residential mortgages. IGM's continued ability to fund residential mortgages through Canadian bank-sponsored securitization trusts and NHA MBS is dependent on securitization market conditions that are subject to change. A condition of the NHA MBS and CMB Programs is that securitized loans be insured by an insurer that is approved by CMHC. The availability of mortgage insurance is dependent upon market conditions that are subject to change.

IGM's contractual obligations were as follows:

DECEMBER 31, 2013	DEMAND	LESS THAN 1 YEAR	1–5 YEARS	AFTER 5 YEARS	TOTAL
Derivative financial instruments	–	11	25	–	36
Deposits and certificates	161	10	11	5	187
Obligations to securitization entities	–	890	4,649	33	5,572
Long-term debt	–	–	150	1,175	1,325
Operation leases	–	54	147	65	266
Pension funding	–	20	–	–	20
Total contractual obligations	161	985	4,982	1,278	7,406

In addition to IGM's current balance of cash and cash equivalents, liquidity is available through IGM's operating lines of credit. IGM's operating lines of credit with various Schedule I Canadian chartered banks totalled $525 million as at December 31, 2013, unchanged from December 31, 2012. The lines of credit as at December 31, 2013 consisted of committed lines of $350 million ($350 million in 2012) and uncommitted lines of $175 million ($175 million in 2012). IGM has accessed its uncommitted lines of credit in the past; however, any advances made by the banks under the uncommitted lines are at the banks' sole discretion. As at December 31, 2013 and 2012, IGM was not utilizing its committed lines of credit or its uncommitted lines of credit.

IGM's liquidity position and its management of liquidity and funding risk have not changed materially since December 31, 2012.

CREDIT RISK

IGM's cash and cash equivalents, securities holdings, mortgage and investment loan portfolios, and derivatives are subject to credit risk. IGM monitors its credit risk management practices continuously to evaluate their effectiveness.

At December 31, 2013, cash and cash equivalents of $1,082 million ($1,059 million in 2012) consisted of cash balances of $89 million ($101 million in 2012) on deposit with Canadian chartered banks and cash equivalents of $994 million ($958 million in 2012). Cash equivalents are composed of Government of Canada treasury bills totalling $42 million ($233 million in 2012), provincial government and government-guaranteed commercial paper of $564 million ($473 million in 2012) and bankers' acceptances issued by Canadian chartered banks of $388 million ($253 million in 2012). IGM regularly reviews the credit ratings of its counterparties. The maximum exposure to credit risk on these financial instruments is their carrying value. IGM manages credit risk related to cash and cash equivalents by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

At December 31, 2012, fair value through profit or loss securities included Canada Mortgage Bonds with a fair value of $226 million. The investment in these bonds was disposed during the third quarter of 2013.

IGM regularly reviews the credit quality of the mortgage portfolios related to IGM's mortgage banking operations and its intermediary operations, as well as the adequacy of the collective allowance. As at December 31, 2013, mortgages totalled $5.9 billion ($4.9 billion in 2012) and consisted of residential mortgages:

> Sold to securitization programs which are classified as loans and receivables and totalled $5.5 billion compared to $4.6 billion at December 31, 2012. An offsetting liability, obligations to securitization entities, has been recorded and totalled $5.6 billion at December 31, 2013, compared to $4.7 billion at December 31, 2012.

> Related to IGM's mortgage banking operations which are classified as held for trading and totalled $324 million, compared to $249 million at December 31, 2012. These loans are held by IGM pending sale or securitization.

> Related to IGM's intermediary operations which are classified as loans and receivables and totalled $36 million at December 31, 2013, compared to $35 million at December 31, 2012.

As at December 31, 2013, the mortgage portfolios related to IGM's intermediary operations were geographically diverse, 100% residential (100% in 2012) and 88.6% insured (86.2% in 2012). As at December 31, 2013, impaired mortgages were nil, unchanged from December 31, 2012. Uninsured non-performing mortgages over 90 days were nil, unchanged from December 31, 2012. The characteristics of the mortgage portfolios have not changed significantly during 2013.

NOTE 23 RISK MANAGEMENT (CONTINUED)

The NHA MBS and CMB Program require that all securitized mortgages be insured against default by an approved insurer. The ABCP programs do not require mortgages to be insured; however, at December 31, 2013, 58.9% of these mortgages were insured compared to 66.6% at December 31, 2012. At December 31, 2013, 86.1% of the securitized portfolio and the residential mortgages classified as held for trading were insured, compared to 88.3% at December 31, 2012. As at December 31, 2013, impaired mortgages on these portfolios were $2 million, compared to $1 million at December 31, 2012. Uninsured non-performing mortgages over 90 days on these portfolios were $1 million at December 31, 2013, unchanged from December 31, 2012.

IGM retains certain elements of credit risk on securitized loans. At December 31, 2013, 87.4% of securitized loans were insured against credit losses compared to 90.2% at December 31, 2012. IGM's credit risk on its securitization activities is limited to its retained interests. The fair value of IGM's retained interests in securitized mortgages was $113 million at December 31, 2013, compared to $69 million at December 31, 2012. Retained interests include:

> Cash reserve accounts and rights to future net interest income, which were $29 million ($24 million in 2012) and $100 million ($102 million in 2012), respectively, at December 31, 2013. Cash reserve accounts are reflected on the balance sheet, whereas rights to future net interest income are not reflected on the balance sheet and will be recorded over the life of the mortgages.

  The portion of this amount pertaining to Canadian bank-sponsored securitization trusts of $59 million ($55 million in 2012) is subordinated to the interests of the trust and represents the maximum exposure to credit risk for any failure of the borrowers to pay when due. Credit risk on these mortgages is mitigated by any insurance on these mortgages, as previously discussed, and IGM's credit risk on insured loans is to the insurer.

  Rights to future net interest income under the NHA MBS and CMB Programs totalled $70 million ($70 million in 2012). Under the NHA MBS and CMB Programs, IGM 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 Programs are insured by CMHC or another approved insurer under the programs. Outstanding mortgages securitized under these programs are $3.8 billion ($3.3 billion in 2012).

> Fair value of principal reinvestment account swaps had a negative fair value of $16 million at December 31, 2013 ($56 million in 2012) and is reflected on the balance sheet. These swaps represent the component of a swap entered into under the CMB Program whereby IGM pays coupons on Canada Mortgage Bonds and receives investment returns on the reinvestment of repaid mortgage principal. The notional amount of these swaps was $1,023 million at December 31, 2013 ($932 million in 2012).

IGM's exposure to and management of credit risk related to cash and cash equivalents, fixed income securities and mortgage portfolios have not changed materially since December 31, 2012.

IGM utilizes over-the-counter derivatives to hedge interest rate risk and reinvestment risk associated with its mortgage banking and securitization activities, as well as market risk related to certain stock-based compensation arrangements. To the extent that the fair value of the derivatives is in a gain position, IGM is exposed to the credit risk that its counterparties fail to fulfill their obligations under these arrangements.

IGM participates in the CMB Program by entering into back-to-back swaps whereby Canadian Schedule I chartered banks designated by IGM are between IGM and the Canadian Housing Trust. IGM receives coupons on NHA MBS and eligible principal reinvestments and pays coupons on the Canada Mortgage Bonds. IGM also enters into offsetting interest rate swaps with the same bank counterparties to hedge interest rate and reinvestment risk associated with the CMB Program. The negative fair value of these swaps totalled $17 million at December 31, 2013 ($27 million in 2012) and the outstanding notional amount was $6.8 billion ($5.7 billion in 2012). Certain of these swaps relate to securitized mortgages that have been recorded on the balance sheet with an associated obligation. Accordingly, these swaps, with an outstanding notional amount of $3.6 billion ($3.3 billion in 2012) and having a negative fair value of $28 million ($29 million in 2012), are not reflected on the balance sheet. Principal reinvestment account swaps and hedges of reinvestment and interest rate risk, with an outstanding notional amount of $3.2 billion ($2.4 billion in 2012) and having a fair value of $11 million ($3 million in 2012), are reflected on the balance sheet. The exposure to credit risk, which is limited to the fair value of swaps in a gain position, totalled $47 million at December 31, 2013, compared to $63 million at December 31, 2012.

IGM utilizes interest rate swaps to hedge interest rate risk associated with mortgages securitized through Canadian bank-sponsored ABCP programs. The negative fair value of these interest rate swaps totalled $1 million ($5 million in 2012) on an outstanding notional amount of $66 million at December 31, 2013 ($435 million in 2012). The exposure to credit risk, which is limited to the fair value of swaps in a gain position, was nil at December 31, 2013, unchanged from December 31, 2012.

Interest rate swaps utilized to hedge IGM's interest rate risk associated with its investments in Canada Mortgage Bonds were settled during the third quarter of 2013.

IGM enters into other derivative contracts which consist primarily of interest rate swaps utilized to hedge interest rate risk related to mortgages held pending sale, or committed to, by IGM as well as total return swaps and forward agreements on IGM's common shares utilized to hedge deferred compensation arrangements. The fair value of interest rate swaps, total return swaps and forward agreements was $12 million on an outstanding notional amount of $154 million at December 31, 2013, compared to a fair value of $0.1 million on an outstanding notional amount of $125 million at December 31, 2012. The exposure to credit risk, which is limited to the fair value of those instruments which are in a gain position, was $12 million at December 31, 2013, compared to $2 million as at December 31, 2012.

The aggregate credit risk exposure related to derivatives that are in a gain position of $58 million ($65 million in 2012) does not give effect to any netting agreements or collateral arrangements. The exposure to credit risk, considering netting agreements and collateral arrangements, was $4 million at December 31, 2013 (nil in 2012). Counterparties are all Canadian Schedule I chartered banks and, as a result, management of IGM has determined that IGM's overall credit risk related to derivatives was not significant at December 31, 2013. Management of credit risk has not changed materially since December 31, 2012.

MARKET RISK

Currency risk IGM's financial instruments are generally denominated in Canadian dollars, and do not have significant exposure to changes in foreign exchange rates.

Interest rate risk IGM is exposed to interest rate risk on its loan portfolio, fixed income securities, Canada Mortgage Bonds and on certain of the derivative financial instruments used in IGM's mortgage banking and intermediary operations.

The objective of IGM's asset and liability management is to control interest rate risk related to its intermediary operations by actively managing its interest rate exposure. As at December 31, 2013, the total gap between deposit assets and liabilities was within IGM's trust subsidiaries' stated guidelines.

NOTE 23 RISK MANAGEMENT (CONTINUED)

IGM utilizes interest rate swaps with Canadian Schedule I chartered bank counterparties in order to reduce the impact of fluctuating interest rates on its mortgage banking operations, as follows:

> IGM has funded fixed rate mortgages with ABCP as part of the securitization transactions with bank-sponsored securitization trusts. IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that ABCP rates rise. However, IGM remains exposed to the basis risk that ABCP rates are greater than the bankers' acceptance rates that it receives on its hedges.

> IGM has in certain instances funded floating rate mortgages with fixed rate Canada Mortgage Bonds as part of the securitization transactions under the CMB Program. IGM enters into interest rate swaps with Canadian Schedule I chartered banks to hedge the risk that the interest rates earned on floating rate mortgages decline. As previously discussed, as part of the CMB Program, IGM also is entitled to investment returns on reinvestment of principal repayments of securitized mortgages and is obligated to pay Canada Mortgage Bond coupons that are generally fixed rate. IGM hedges the risk that reinvestment returns decline by entering into interest rate swaps with Canadian Schedule I chartered bank counterparties.

> IGM is also exposed to the impact that changes in interest rates may have on the value of mortgages held, or committed to, by IGM. IGM may enter into interest rate swaps to hedge this risk.

As at December 31, 2013, the impact to annual net earnings of IGM of a 100-basis-point change in interest rates would have been a decrease of approximately $2 million (Power Financial's share – $1 million). IGM's exposure to and management of interest rate risk has not changed materially since December 31, 2012.

Equity price risk IGM is exposed to equity price risk on its proprietary investment funds which are classified as available-for-sale securities and its equity securities which are classified as fair value through profit or loss. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income until they are realized or until management of IGM determines there is objective evidence of impairment in value, at which time they are recorded in the statements of earnings.

IGM sponsors a number of deferred compensation arrangements where payments to participants are linked to the performance of the common shares of IGM Financial Inc. IGM hedges this risk through the use of forward agreements and total return swaps.

RISKS RELATED TO ASSETS UNDER MANAGEMENT – MARKET RISK

Risks related to the performance of the equity markets, changes in interest rates and changes in foreign currencies relative to the Canadian dollar can have a significant impact on the level and mix of assets under management. These changes in assets under management directly impact earnings of IGM.

NOTE 24 OPERATING AND ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31	2013	2012
Salaries and other employee benefits	2,511	2,190
Amortization, depreciation and impairment	199	178
Premium taxes	313	293
Restructuring and acquisition expenses	107	–
Sub-advisor fees[1]	110	98
Other	1,234	1,047
	4,474	3,806

[1] Lifeco reclassified sub-advisor fees which were previously set off against fee income to operating and administrative expenses.

RESTRUCTURING AND ACQUISITION EXPENSES

With the acquisition of Irish Life on July 18, 2013, Lifeco has developed a restructuring plan to combine the life and pension operations of Canada Life (Ireland) and Irish Life. In addition, other restructuring expenses have been incurred by Lifeco and IGM.

Restructuring and acquisition expenses by major categories were as follows:

YEAR ENDED DECEMBER 31	2013
Acquisition expenses	29
Restructuring – Irish Life	
Staff costs	17
Information systems	3
Other	11
	31
Impairment of Canada Life Ireland brand value [Note 11]	34
Other restructuring expenses	13
Total	107

Included in the above restructuring expenses are provisions of $34 million which are included within other liabilities. These provisions are expected to be realized within 12 months from the reporting date.

NOTE 25 FINANCING CHARGES

YEARS ENDED DECEMBER 31	2013	2012
Interest on debentures and debt instruments	364	341
Net interest on capital trust debentures	11	41
Other	25	27
	400	409

NOTE 26 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

CHARACTERISTICS, FUNDING AND RISK

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain employees and advisors as well as unfunded supplementary employee retirement plans (SERP) for certain employees. The Corporation's subsidiaries also maintain defined contribution pension plans for eligible employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average earnings. For most plans, active plan participants share in the cost by making contributions in respect of current service. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits, in accordance with the terms of the plans, and assuming the plans are not terminated. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are supported by general assets.

Effective July 1, 2012, the defined benefit pension plan of IGM was closed and will only accept members hired prior to July 1, 2012. For all eligible employees hired after July 1, 2012, IGM introduced a registered defined contribution pension plan.

Effective January 1, 2013, both the Great-West Life Assurance Company Canadian Employees' Pension Plan and the London Life Staff Pension Plan added a defined contribution provision to their plans. All new hires after this date are eligible only for defined contribution benefits. This change is consistent with the benefit provisions of the majority of Lifeco's pension plans and will continue to reduce Lifeco's defined benefit plan exposure in future years.

Subsidiaries of Lifeco have declared partial windups in respect of certain defined benefit pension plans. Lifeco holds after-tax provisions in the amount of $34 million for these plans.

The defined contribution pension plans provide pension benefits based on accumulated employee and company contributions. Contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Corporation and its subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. These post-employment benefits are not pre-funded. The amount of the obligation for these benefits is included in other liabilities and is supported by general assets.

The Corporation and its subsidiaries have pension and benefit committees or a trustee arrangement that provides oversight for the benefit plans. The benefit plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and funding requirements of the Corporation and its subsidiaries. Significant changes to benefit plans require approval.

The Corporation and its subsidiaries' funding policy for the funded pension plans is to make annual contributions equal to or greater than those required by the applicable regulations and plan provisions that govern the funding of the plans. Where funded plans have a net defined benefit asset, the Corporation and its subsidiaries determine if an economic benefit exists in the form of potential reductions in future contributions and in the form of surplus refunds, where permitted by applicable regulation and plan provisions.

By their design, the defined benefit plans expose the Corporation and its subsidiaries to the typical risks faced by defined benefit plans such as investment performance, changes to the discount rates used to value the obligations, longevity of plan members, and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Corporation and its subsidiaries.

NOTE 26 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

PLAN ASSETS, BENEFIT OBLIGATIONS AND FUNDED STATUS

	2013		2012	
DECEMBER 31	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
CHANGE IN FAIR VALUE OF PLAN ASSETS				
Fair value of plan assets, beginning of year	3,539	–	3,359	–
Interest income	176	–	168	–
Employee contributions	22	–	20	–
Employer contributions	164	19	93	19
Actual return over interest income	310	–	112	–
Benefits paid	(210)	(19)	(185)	(19)
Administrative expenses	(6)	–	(5)	–
Acquisition of Irish Life	1,196	–	–	–
Foreign exchange and other	158	–	(23)	–
Fair value of plan assets, end of year	5,349	–	3,539	–
CHANGE IN DEFINED BENEFIT OBLIGATION				
Defined benefit obligation, beginning of year	4,389	470	3,868	449
Current service cost	125	4	91	3
Employee contributions	22	–	20	–
Interest cost	212	19	191	22
Actuarial (gains) losses on:				
Financial assumption changes	(332)	(29)	416	49
Demographic assumption changes	37	(11)	9	10
Arising from member experience	8	3	3	(44)
Benefits paid	(210)	(19)	(185)	(19)
Past service cost	1	–	1	–
Acquisition of Irish Life	1,202	–	–	–
Foreign exchange and other	199	1	(25)	–
Defined benefit obligation, end of year	5,653	438	4,389	470
FUNDED STATUS				
Fund deficit	(304)	(438)	(850)	(470)
Unrecognized amount due to limit on asset	(44)	–	(41)	–
Accrued benefit liability	(348)	(438)	(891)	(470)

The aggregate defined benefit obligation of pension plans is as follows:

YEARS ENDED DECEMBER 31	2013	2012
Wholly or partly funded plans	5,229	3,975
Wholly unfunded plans	424	414

The net accrued benefit asset (liability) shown above is presented in these financial statements as follows:

	2013			2012		
DECEMBER 31	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	TOTAL	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	TOTAL
Pension benefit asset	408	–	408	202	–	202
Pension and other post-employment benefit liabilities	(756)	(438)	(1,194)	(1,093)	(470)	(1,563)
Accrued benefit asset (liability)	(348)	(438)	(786)	(891)	(470)	(1,361)

NOTE 26 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Under International Financial Reporting Interpretations Committee (IFRIC) 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, the Corporation and its subsidiaries must assess whether the pension asset is of economic benefit to the Corporation and its subsidiaries through future contribution reductions or refunds. In the event the Corporation and its subsidiaries are not entitled to a benefit, a limit or "asset ceiling" is required on the balance. The following provides a breakdown of the changes in the asset ceiling.

DECEMBER 31	2013	2012
Asset ceiling, beginning of year	41	71
Interest on beginning of period asset ceiling	2	4
Change in asset ceiling	1	(34)
Asset ceiling, end of year	44	41

PENSION AND OTHER POST-EMPLOYMENT BENEFIT EXPENSE

	2013		2012	
DECEMBER 31	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Defined benefit current service cost	147	4	111	3
Employee contributions	(22)	–	(20)	–
	125	4	91	3
Net interest cost	38	19	27	22
Past service cost	1	–	1	–
Administration fees	6	–	5	–
Defined contribution current service cost	31	–	26	–
Expense recognized in net earnings	201	23	150	25
Actuarial (gain) loss recognized	(287)	(37)	428	15
Return on assets (greater) less than assumed	(310)	–	(112)	–
Effect of the asset ceiling	1	–	(34)	–
Expense recognized in other comprehensive income	(596)	(37)	282	15
Total expense (income)	(395)	(14)	432	40

During 2013, the Corporation and its subsidiaries incurred $23 million of actuarial gains ($7 million of actuarial losses in 2012) for pension plan remeasurements not included in the table shown above. This primarily relates to the share of actuarial gains (losses) for investments accounted for under the equity method.

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

	DEFINED BENEFIT PENSION PLANS		
%	DECEMBER 31, 2013	DECEMBER 31, 2012	JANUARY 1, 2012
Equity securities	54	52	47
Debt securities	37	38	41
All other assets	9	10	12
	100	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Lifeco's plan assets include investments in segregated funds and other funds managed by subsidiaries of Lifeco in the balance sheet of $3,012 million at December 31, 2013 ($1,523 million at December 31, 2012 and $1,430 million at January 1, 2012). Plan assets do not include any property occupied or other assets used by Lifeco. IGM's plan assets are invested in IGM's mutual funds. Power Financial's plan assets are invested in segregated funds managed by a subsidiary of Lifeco.

NOTE 26 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

DETAILS OF DEFINED BENEFIT OBLIGATION

PORTION OF DEFINED BENEFIT OBLIGATION SUBJECT TO FUTURE SALARIES

	2013		2012	
DECEMBER 31	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Benefit obligation without future salary increases	5,036	438	4,030	470
Effect of assumed future salary increases	617	–	359	–
Defined benefit obligation	5,653	438	4,389	470

ALLOCATION OF DEFINED BENEFIT OBLIGATION BY MEMBERSHIP

	2013		2012	
DECEMBER 31 %	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Actives	46	25	44	27
Deferred vesteds	15	–	15	–
Retirees	39	75	41	73
Total	100	100	100	100
Weighted average duration of defined benefit obligation (in years)	18.2	11.9	16.3	12.7

CASH FLOW INFORMATION

The expected employer contributions for the year 2014 are as follows:

	DEFINED BENEFIT PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Funded (wholly or partly) defined benefit plans	118	–
Unfunded defined benefit plans	22	22
Defined contribution plans	34	–
Total	174	22

ACTUARIAL ASSUMPTIONS AND SENSITIVITIES

ACTUARIAL ASSUMPTIONS

	DEFINED BENEFIT PENSION PLANS		OTHER POST-EMPLOYMENT BENEFITS	
%	2013	2012	2013	2012
RANGE OF DISCOUNT RATES				
To determine benefit cost	4.1 – 4.6	4.5 – 5.5	4.1 – 4.5	4.5 – 5.1
To determine accrued benefit obligation at year-end	4.7 – 5.1	4.1 – 4.6	4.7 – 5.0	4.1 – 4.5
WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT COST[1]				
Discount rate	4.4	5.1	4.2	5.1
Rate of compensation increase	3.2	3.6	–	–
WEIGHTED AVERAGE ASSUMPTIONS USED TO DETERMINE ACCRUED BENEFIT OBLIGATION AT YEAR-END[1]				
Discount rate	4.7	4.4	4.8	4.2
Rate of compensation increase	3.3	3.2	–	–
WEIGHTED AVERAGE HEALTHCARE TREND RATES[1]				
Initial healthcare trend rate			6.4	6.5
Ultimate healthcare trend rate			4.5	4.5
Year ultimate trend rate is reached			2024	2024

[1] Based on the obligations of each plan.

NOTE 26 PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

SAMPLE LIFE EXPECTANCIES BASED ON MORTALITY ASSUMPTIONS

	2013		2012	
DECEMBER 31	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS	PENSION PLANS	OTHER POST-EMPLOYMENT BENEFITS
Weighted average life expectancies based on mortality assumptions[1]:				
Male				
Age 65 in fiscal year	22.0	21.4	21.0	20.8
Age 65 in fiscal year + 30 years	24.3	23.0	23.3	22.9
Female				
Age 65 in fiscal year	23.9	23.7	23.1	23.2
Age 65 in fiscal year + 30 years	25.8	25.0	24.5	24.3

[1] Based on the obligations of each plan.

Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty and judgment is required in establishing this assumption. The mortality assumptions applied by the Corporation and its subsidiaries take into consideration average life expectancy, including allowances for future mortality improvement as appropriate, and reflect variations in such factors as age, gender and geographic location.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practice. Emerging plan experience is reviewed and considered in establishing the best estimate for future mortality.

IMPACT OF CHANGES TO ASSUMPTIONS

DECEMBER 31, 2013	1% INCREASE	1% DECREASE
DEFINED BENEFIT PENSION PLANS:		
Impact of a change to the discount rate	(856)	1,100
Impact of a change to the rate of compensation increase	268	(218)
Impact of a change to the rate of inflation	662	(523)
OTHER POST-EMPLOYMENT BENEFITS:		
Impact of a change to assumed medical cost trend rates	45	(37)
Impact of a change to the discount rate	(48)	58

To measure the impact of a change in an assumption, all other assumptions were held constant. It would be expected that there would be interaction between at least some of the assumptions and therefore the sensitivity analysis presented may not be representative of the actual change.

NOTE 27 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of managing exposure to fluctuations in interest rates, foreign exchange rates, and to market risks, the Corporation and its subsidiaries are end-users of various derivative financial instruments. Contracts are either exchange traded or over-the-counter traded with counterparties that are credit-worthy financial intermediaries.

The following table summarizes the portfolio of derivative financial instruments of the Corporation and its subsidiaries at December 31:

	NOTIONAL AMOUNT					
2013	1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	MAXIMUM CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES						
Interest rate contracts						
Futures – long	4	–	–	4	–	–
Futures – short	13	–	–	13	–	–
Swaps	2,455	3,191	990	6,636	269	176
Options purchased	265	327	89	681	30	30
	2,737	3,518	1,079	7,334	299	206
Foreign exchange contracts						
Forward contracts	602	476	–	1,078	11	6
Cross-currency swaps	213	2,053	4,986	7,252	313	(167)
	815	2,529	4,986	8,330	324	(161)
Other derivative contracts						
Equity contracts	10,660	102	–	10,762	11	(90)
Futures – long	15	–	–	15	–	–
Futures – short	301	–	–	301	–	(6)
Other forward contracts	157	–	–	157	–	–
	11,133	102	–	11,235	11	(96)
	14,685	6,149	6,065	26,899	634	(51)
CASH FLOW HEDGES						
Interest rate contracts						
Swaps	–	–	33	33	7	7
Foreign exchange contracts						
Cross-currency swaps	–	1,500	12	1,512	–	(94)
Other derivative contracts						
Forward contracts and total return swap	15	17	–	32	8	8
	15	1,517	45	1,577	15	(79)
FAIR VALUE HEDGES						
Interest rate contracts						
Swaps	–	17	66	83	5	5
	14,700	7,683	6,176	28,559	654	(125)

NOTE 27 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

2012	NOTIONAL AMOUNT 1 YEAR OR LESS	1–5 YEARS	OVER 5 YEARS	TOTAL	MAXIMUM CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
DERIVATIVES NOT DESIGNATED AS ACCOUNTING HEDGES						
Interest rate contracts						
Futures – long	9	–	–	9	–	–
Futures – short	71	–	–	71	–	–
Swaps	1,844	2,613	1,348	5,805	410	318
Options purchased	257	513	87	857	46	46
	2,181	3,126	1,435	6,742	456	364
Foreign exchange contracts						
Forward contracts	300	–	–	300	1	–
Cross-currency swaps	205	2,001	4,772	6,978	565	290
	505	2,001	4,772	7,278	566	290
Other derivative contracts						
Equity contracts	900	4	–	904	8	(5)
Futures – long	7	–	–	7	–	–
Futures – short	224	–	–	224	–	(4)
Other forward contracts	290	–	–	290	–	–
	1,421	4	–	1,425	8	(9)
	4,107	5,131	6,207	15,445	1,030	645
CASH FLOW HEDGES						
Interest rate contracts						
Swaps	–	–	30	30	14	13
Foreign exchange contracts						
Cross-currency swaps	–	1,000	500	1,500	16	(8)
Other derivative contracts						
Forward contracts and total return swap	3	18	–	21	–	(2)
	3	1,018	530	1,551	30	3
FAIR VALUE HEDGES						
Interest rate contracts						
Swaps	–	58	124	182	–	(1)
	4,110	6,207	6,861	17,178	1,060	647

The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position. The credit risk is presented without giving effect to any netting agreements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Corporation and its subsidiaries would receive (or pay) to terminate all agreements at year-end. However, this would not result in a gain or loss to the Corporation and its subsidiaries as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

INTEREST RATE CONTRACTS

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities and to reduce the impact of fluctuating interest rates on the mortgage banking operations and intermediary operations. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based.

Call options grant the Corporation and its subsidiaries the right to enter into a swap with predetermined fixedrate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.

FOREIGN EXCHANGE CONTRACTS

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with investment activities and insurance and investment contract liabilities. Under these swaps, principal amounts and fixed and floating interest payments may be exchanged in different currencies. The Corporation and its subsidiaries may also enter into certain foreign exchange forward contracts to hedge certain product liabilities, cash and cash equivalents and cash flows.

NOTE 27 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

OTHER DERIVATIVE CONTRACTS

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage the potential credit risk impact of significant declines in certain equity markets.

Forward agreements and total return swaps are used to manage exposure to fluctuations in the total return of common shares related to deferred compensation arrangements. Total return swap and forward agreements require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges. Changes in fair value are recorded in operating and administrative expenses in the statements of earnings for those instruments not designated as hedges.

ENFORCEABLE MASTER NETTING AGREEMENTS OR SIMILAR AGREEMENTS

The following disclosure shows the potential effect on the Corporation's balance sheets on financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the balance sheets.

The Corporation and its subsidiaries enter into the International Swaps and Derivative Association's master agreements for transacting over-the-counter derivatives. The Corporation and its subsidiaries receive and pledge collateral according to the related International Swaps and Derivative Association's Credit Support Annexes. The International Swaps and Derivative Association's master agreements do not meet the criteria for offsetting on the balance sheets because they create a right of set-off that is enforceable only in the event of default, insolvency, or bankruptcy.

For exchange-traded derivatives subject to derivative clearing agreements with exchanges and clearing houses, there is no provision for set-off at default. Initial margin is excluded from the table below as it would become part of a pooled settlement process.

Lifeco's reverse repurchase agreements are also subject to right of set-off in the event of default. These transactions and agreements include master netting arrangements which provide for the netting of payment obligations between Lifeco and its counterparties in the event of default.

		RELATED AMOUNTS NOT SET OFF IN THE BALANCE SHEETS		
DECEMBER 31, 2013	GROSS AMOUNT OF FINANCIAL INSTRUMENTS PRESENTED IN THE BALANCE SHEET	OFFSETTING COUNTERPARTY POSITION[1]	FINANCIAL COLLATERAL RECEIVED / PLEDGED[2]	NET EXPOSURE
FINANCIAL INSTRUMENTS (ASSETS)				
Derivative financial instruments	654	(271)	(22)	361
Reverse repurchase agreements[3]	87	–	(87)	–
Total financial instruments (assets)	741	(271)	(109)	361
FINANCIAL INSTRUMENTS (LIABILITIES)				
Derivative instruments	779	(271)	(199)	309
Total financial instruments (liabilities)	779	(271)	(199)	309

		RELATED AMOUNTS NOT SET OFF IN THE BALANCE SHEETS		
DECEMBER 31, 2012	GROSS AMOUNT OF FINANCIAL INSTRUMENTS PRESENTED IN THE BALANCE SHEET	OFFSETTING COUNTERPARTY POSITION[1]	FINANCIAL COLLATERAL RECEIVED / PLEDGED[2]	NET EXPOSURE
FINANCIAL INSTRUMENTS (ASSETS)				
Derivative financial instruments	1,060	(275)	(25)	760
Reverse repurchase agreements[3]	101	–	(101)	–
Total financial instruments (assets)	1,161	(275)	(126)	760
FINANCIAL INSTRUMENTS (LIABILITIES)				
Derivative instruments	413	(275)	(96)	42
Total financial instruments (liabilities)	413	(275)	(96)	42

[1] Includes counterparty amounts recognized on the balance sheets where the Corporation has a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheets, excluding collateral.

[2] Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. Financial collateral received on reverse repurchase agreements is held by a third party. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was $22 million ($25 million at December 31, 2012), received on reverse repurchase agreements was $89 million ($103 million at December 31, 2012), and pledged on derivative liabilities was $222 million ($118 million at December 31, 2012).

[3] Assets related to reverse repurchase agreements are included in bonds in the balance sheets.

NOTE 28 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair value of the Corporation's financial assets and financial liabilities, including their levels in the fair value hierarchy using the valuation methods and assumptions described in the summary of significant accounting policies and below. Fair values are management's estimates and are generally calculated using market information at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost.

The table excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. The excluded items are cash and cash equivalents, dividends, interest and accounts receivable, income tax receivable, loans to policyholders, certain other financial assets, accounts payable, repurchase agreements, dividends payable, interest payable, income tax payable and certain other financial liabilities.

DECEMBER 31, 2013	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL FAIR VALUE
FINANCIAL ASSETS					
Financial assets recorded at fair value					
Bonds					
Fair value through profit or loss	70,104	–	69,771	333	70,104
Available for sale	8,370	–	8,346	24	8,370
Mortgage and other loans					
Fair value through profit or loss	324	–	324	–	324
Shares					
Fair value through profit or loss	7,297	7,264	7	26	7,297
Available for sale	117	116	–	1	117
Investment properties	4,288	–	–	4,288	4,288
Derivative instruments	654	–	646	8	654
Other assets	396	244	131	21	396
	91,550	7,624	79,225	4,701	91,550
Financial assets recorded at amortized cost					
Bonds					
Loans and receivables	11,855	–	12,544	128	12,672
Mortgage and other loans					
Loans and receivables	24,591	–	19,517	5,695	25,212
Shares					
Available for sale[1]	632	–	–	632	632
	37,078	–	32,061	6,455	38,516
Total financial assets	128,628	7,624	111,286	11,156	130,066
FINANCIAL LIABILITIES					
Financial liabilities recorded at fair value					
Investment contract liabilities	(889)	–	(859)	(30)	(889)
Derivative instruments	(779)	(6)	(749)	(24)	(779)
Other liabilities	(20)	(20)	–	–	(20)
	(1,688)	(26)	(1,608)	(54)	(1,688)
Financial liabilities recorded at amortized cost					
Obligations to securitization entities	(5,572)	–	–	(5,671)	(5,671)
Debentures and debt instruments	(7,275)	(582)	(7,409)	(75)	(8,066)
Capital trust debentures	(163)	–	(205)	–	(205)
Deposits and certificates	(187)	–	(188)	–	(188)
	(13,197)	(582)	(7,802)	(5,746)	(14,130)
Total financial liabilities	(14,885)	(608)	(9,410)	(5,800)	(15,818)

[1] Fair value cannot be reliably measured as these are unique private companies across various industries. In addition, the financial data that the Corporation receives is not available on a timely basis to allow accurate estimates on reporting dates, therefore the investments are held at cost.

NOTE 28 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

DECEMBER 31, 2012	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL FAIR VALUE
FINANCIAL ASSETS					
Financial assets recorded at fair value					
Bonds					
Fair value through profit or loss	65,050	225	64,551	274	65,050
Available for sale	7,407	–	7,380	27	7,407
Mortgage and other loans					
Fair value through profit or loss	249	–	249	–	249
Shares					
Fair value through profit or loss	5,949	5,930	7	12	5,949
Available for sale	138	132	5	1	138
Investment properties	3,572	–	–	3,572	3,572
Derivative instruments	1,060	–	1,060	–	1,060
Other assets	285	192	84	9	285
	83,710	6,479	73,336	3,895	83,710
Financial assets recorded at amortized cost					
Bonds					
Loans and receivables	10,934	–	12,372	66	12,438
Mortgage and other loans					
Loans and receivables	22,548	–	19,067	4,792	23,859
Shares					
Available for sale	674	–	–	674	674
	34,156	–	31,439	5,532	36,971
Total financial assets	117,866	6,479	104,775	9,427	120,681
FINANCIAL LIABILITIES					
Financial liabilities recorded at fair value					
Investment contract liabilities	(739)	–	(706)	(33)	(739)
Derivative instruments	(413)	(4)	(353)	(56)	(413)
Other liabilities	(141)	(141)	–	–	(141)
	(1,293)	(145)	(1,059)	(89)	(1,293)
Financial liabilities recorded at amortized cost					
Obligations to securitization entities	(4,701)	–	–	(4,787)	(4,787)
Debentures and debt instruments	(5,817)	(295)	(6,484)	–	(6,779)
Capital trust debentures	(164)	–	(216)	–	(216)
Deposits and certificates	(163)	–	(165)	–	(165)
	(10,845)	(295)	(6,865)	(4,787)	(11,947)
Total financial liabilities	(12,138)	(440)	(7,924)	(4,876)	(13,240)

There were no significant transfers between Level 1 and Level 2 in 2013 and 2012.

NOTE 28 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

> Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access. Financial 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 1 assets also include, open-end investment fund units, and investments in Government of Canada Bonds and Canada Mortgage Bonds in instances where there are quoted prices available from active markets.

> Level 2 inputs utilize 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, mortgage loans, deposits and certificates, and long-term debt. The fair value of derivative financial instruments and deposits and certificates is 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. Investment contracts that are measured at fair value through profit or loss are mostly included in Level 2 category.

> Level 3 inputs 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, external appraisers or by discounting projected cash flows. Financial assets and liabilities utilizing Level 3 inputs include certain bonds, certain asset-backed securities, some private equities, some mortgages, investments in mutual and segregated funds where there are redemption restrictions, certain over-the-counter derivatives, investment properties, and obligations to securitization entities.

The following table presents additional information about financial assets and financial liabilities measured at fair value on a recurring basis for which the Corporation and its subsidiaries have utilized Level 3 inputs to determine fair value for the year ended December 31, 2013.

	BONDS		SHARES						
DECEMBER 31, 2013	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	INVESTMENT PROPERTIES	DERIVATIVES, NET	OTHER ASSETS (LIABILITIES)	INVESTMENT CONTRACT LIABILITIES	TOTAL
Balance, beginning of year	274	27	12	1	3,572	(56)	9	(33)	3,806
Total gains (losses)									
In net earnings	68	4	1	–	152	18	12	–	255
In other comprehensive income[1]	–	3	–	–	216	–	–	–	219
Acquisition of Irish Life [Note 4]	120	–	1	–	248	–	–	–	369
Purchases	–	–	21	–	182	3	–	–	206
Sales	(104)	(5)	(10)	–	(82)	–	–	–	(201)
Settlements	(69)	(5)	–	–	–	19	–	–	(55)
Other	–	–	–	–	–	–	–	3	3
Transfers into Level 3	50	–	1	–	–	–	–	–	51
Transfers out of Level 3	(6)	–	–	–	–	–	–	–	(6)
Balance, end of year	333	24	26	1	4,288	(16)	21	(30)	4,647

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

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 funds and segregated funds.

NOTE 28 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

TYPE OF ASSET	VALUATION APPROACH	SIGNIFICANT UNOBSERVABLE INPUT	INPUT VALUE	INTER-RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
Asset-backed securities (included with bonds)	Discounted cash flow	Prepayment speed assumption (estimated % of collateral that prepays annually)	8.5% (weighted average)	Lifeco does not believe that changing one or more of the inputs to reasonably alternate assumptions would change their values significantly.
		Constant default rate assumption (estimated % of defaults in the collateral pool annually)	5.0% (weighted average)	
		Adjusted asset-backed securities index (ABX index) spread assumption (adjusted for internally calculated liquidity premium)	455 bps (weighted average)	
Investment properties	Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discount, reversionary and overall capitalization rates applicable to the asset based on current market rates.	Discount rate	Range of 4.0% – 11.0%	A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.
		Reversionary rate	Range of 5.4% – 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 3.1%	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.

NOTE 29 OTHER COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2013	ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET EARNINGS			ITEMS THAT WILL NOT BE RECLASSIFIED TO NET EARNINGS		
	INVESTMENT REVALUATION AND CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATE	ACTUARIAL GAIN (LOSSES) ON DEFINED BENEFIT PENSION PLANS	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATE	TOTAL
Balance, beginning of year						
As previously reported	78	(302)	76	–	–	(148)
Change in accounting policy [Note 3]	–	–	–	(475)	(44)	(519)
As restated	78	(302)	76	(475)	(44)	(667)
Other comprehensive income (loss)	(128)	564	251	292	19	998
Other	1	2	–	4	–	7
Balance, end of year	(49)	264	327	(179)	(25)	338

YEAR ENDED DECEMBER 31, 2012	ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO NET EARNINGS			ITEMS THAT WILL NOT BE RECLASSIFIED TO NET EARNINGS		
	INVESTMENT REVALUATION AND CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATE	ACTUARIAL GAIN (LOSSES) ON DEFINED BENEFIT PENSION PLANS	SHARE OF JOINTLY CONTROLLED CORPORATIONS AND ASSOCIATE	TOTAL
Balance, beginning of year						
As previously reported	96	(249)	176	–	–	23
Change in accounting policy [Note 3]	–	–	–	(335)	(37)	(372)
As restated	96	(249)	176	(335)	(37)	(349)
Other comprehensive income (loss)	(18)	(53)	(100)	(140)	(7)	(318)
Balance, end of year	78	(302)	76	(475)	(44)	(667)

NOTE 30 EARNINGS PER SHARE

The following is a reconciliation of the numerators and the denominators used in the computations of earnings per share:

YEARS ENDED DECEMBER 31	2013	2012
EARNINGS		
Net earnings attributable to shareholders	2,027	1,735
Dividends on perpetual preferred shares	(131)	(117)
Net earnings attributable to common shareholders	1,896	1,618
Dilutive effect of subsidiaries	(28)	(9)
Diluted net earnings attributable to common shareholders	1,868	1,609
NUMBER OF COMMON SHARES (millions)		
Weighted average number of common shares outstanding – Basic	710.8	708.3
Exercise of outstanding stock options	7.4	3.6
Shares assumed to be repurchased with proceeds from exercise of stock options	(7.0)	(3.2)
Weighted average number of common shares outstanding – Diluted	711.2	708.7
NET EARNINGS PER COMMON SHARE		
Basic	2.67	2.29
Diluted	2.63	2.27

For 2013, 141,415 stock options (5,190,730 in 2012) have been excluded from the computation of diluted earnings per share as the exercise price was higher than the market price.

NOTE 31 CONTINGENT LIABILITIES

The Corporation and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty, and it is possible that an adverse resolution could have a material adverse effect on the consolidated financial position of the Corporation. However, based on information presently known, it is not expected that any of the existing legal actions, either individually or in the aggregate, will have a material adverse effect on the consolidated financial position of the Corporation.

LIFECO

A subsidiary of Lifeco, Canada Life, has declared a partial windup in respect of an Ontario defined benefit pension plan which will not likely be completed for some time. The partial windup could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound-up portion of the plan. In addition to the regulatory proceedings involving this partial windup, a related class action proceeding has been commenced in Ontario related to the partial windup and three potential partial windups under the plan. The class action also challenges the validity of charging expenses to the plan. The provisions for certain Canadian retirement plans in the amounts of $97 million after tax established by Lifeco's subsidiaries in the third quarter of 2007 have been reduced to $34 million in the fourth quarter of 2012. Actual results could differ from these estimates.

In connection with the acquisition of its subsidiary Putnam, Lifeco has an indemnity from a third party against liabilities arising from certain litigation and regulatory actions involving Putnam. Putnam continues to have potential liability for these matters in the event the indemnity is not honoured. Lifeco expects the indemnity will continue to be honoured and that any liability of Putnam would not have a material adverse effect on its consolidated financial position.

On October 17, 2012, a subsidiary of Lifeco, Putnam Advisory Company, LLC, received an administrative complaint from the Massachusetts Securities Division in relation to that subsidiary's role as collateral manager of two collateralized debt obligations. The complaint is seeking certain remedies, including the disgorgement of fees, a civil administrative fine and a cease and desist order. In addition, that same subsidiary was a defendant in two civil litigation matters brought by institutions involved in those collateralized debt obligations. In the third quarter of 2013, one of the civil litigation matters was dismissed. Based on information presently known, Lifeco believes these matters are without merit. The potential outcome of these matters is not yet determined.

During the first quarter of 2013, Lifeco completed a review of the contingencies relating to the cost of acquiring Canada Life Financial Corporation in 2003 and reduced the existing provision from $41 million to $7 million. This provision was further reduced to nil in the fourth quarter of 2013.

Lifeco and its subsidiaries London Life and Great-West Life are defendants in class proceedings in Ontario regarding the participation of the London Life and Great-West Life participating accounts in the financing of the acquisition of London Insurance Group Inc. in 1997 by Great-West Life.

The Ontario Superior Court of Justice released its trial decision on October 1, 2010. Lifeco and its subsidiaries appealed and the Court of Appeal for Ontario released its decision on November 3, 2011. The Court of Appeal ordered that there be adjustments to the October 1, 2010 trial judgment regarding the amounts which were to be reallocated to the participating accounts and directed the parties back to the trial judge to determine these amounts and address the remaining issues. On May 24, 2012, the Supreme Court of Canada dismissed the plaintiffs' application for leave to appeal the Court of Appeal decision.

The parties returned to the trial judge and, on January 24, 2013 the Ontario Superior Court of Justice released a decision ordering that $298 million be reallocated to the participating account surplus. Lifeco established an incremental provision in the December 31, 2012 financial statements of $140 million after tax in its common shareholders account to hold $290 million in after-tax provisions for these proceedings.

During the first quarter of 2013 Lifeco subsidiaries London Life and Great-West Life reallocated an amount of $298 million to the participating account surplus in accordance with the January 24, 2013 decision and Lifeco therefore reduced the litigation provision in its common shareholders account. The monies to be relocated to the participating accounts are to be dealt with in accordance with Lifeco subsidiaries' participating policyholder dividend policies in the ordinary course of business. No awards are to be paid out to individual class members.

Lifeco subsidiaries London Life and Great-West Life appealed the January 24, 2013 decision and the appeal was heard September 4, 2013. The Court of Appeal for Ontario reserved its decision.

Subsequent event – Participating account legal matter The Court of Appeal for Ontario released a decision on February 3, 2014 overturning the January 24, 2013 decision of the Ontario Superior Court of Justice and reducing the amount to be reallocated to the participating account surplus to $52 million, which positively impacted Lifeco's common shareholders' net earnings by $226 million after tax. There will not be any impact on Lifeco's capital position or on its participating policy contract terms and conditions.

NOTE 32 COMMITMENTS AND GUARANTEES

GUARANTEES

In the normal course of operations, the Corporation and its subsidiaries execute agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Corporation and its subsidiaries have also agreed to indemnify their directors and certain of their officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation and its subsidiaries could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made any payments under such indemnification agreements. No amounts have been accrued related to these agreements.

LETTERS OF CREDIT

Letters of credit are written commitments provided by a bank. For Lifeco, the total amount of letter of credit facilities is US$3.0 billion, of which US$2.7 billion were issued as of December 31, 2013.

The Reinsurance operation periodically uses letters of credit as collateral under certain reinsurance contracts for on-balance sheet policy liabilities.

INVESTMENT COMMITMENTS

With respect to Lifeco, commitments to investment transactions made in the normal course of operations in accordance with policies and guidelines and that are to be disbursed upon fulfilment of certain contract conditions were $466 million as at December 31, 2013 ($516 million as at December 31, 2012). At December 31, 2013, the full amount of $466 million will mature within 1 year (at December 31, 2012, $470 million was to mature within 1 year and $46 million in 1-2 years).

INVESTED ASSETS ON DEPOSIT FOR REINSURANCE AGREEMENTS

As at December 31, 2013, Lifeco has $582 million ($606 million at December 31, 2012) of invested assets maintained on deposit in respect of certain reinsurance agreements. Lifeco retains all rights to the cash flows on these assets, however, the investment policies for these assets are governed by the terms of the reinsurance agreements.

COMMITMENTS

The Corporation and its subsidiaries enter into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2014	2015	2016	2017	2018	2019 AND THEREAFTER	TOTAL
Future lease payments	154	136	117	98	77	125	707

NOTE 33 RELATED PARTY TRANSACTIONS

PRINCIPAL SUBSIDIARIES AND JOINT VENTURE

The financial statements of Power Financial include the operations of the following subsidiaries and joint venture:

CORPORATION	INCORPORATED IN	PRIMARY BUSINESS OPERATION	% HELD
Great-West Lifeco Inc.	Canada	Financial services holding company	67
The Great-West Life Assurance Company	Canada	Insurance and wealth management	100
London Life Insurance Company	Canada	Insurance and wealth management	100
The Canada Life Assurance Company	Canada	Insurance and wealth management	100
Irish Life Group Limited	Ireland	Insurance and wealth management	100
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100
Putnam Investments, LLC	United States	Financial services	95.6
IGM Financial Inc.	Canada	Financial services	58.6
Investors Group Inc.	Canada	Financial services	100
Mackenzie Financial Corporation	Canada	Financial services	100
Parjointco N.V. (joint venture)	Netherlands	Holding company	50
Pargesa Holding SA	Switzerland	Holding company	55.6

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

NOTE 33 RELATED PARTY TRANSACTIONS (CONTINUED)

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Great-West Life enters into various transactions with related companies which include providing insurance benefits and sub-advisory services to other companies within the Power Financial group of companies. In all cases, transactions are at market terms and conditions.

During 2013, IGM sold residential mortgage loans to Great-West Life, London Life and segregated funds maintained by London Life for $204 million ($232 million in 2012).

Lifeco provides reinsurance, asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits for employees of Power Financial and Lifeco and its subsidiaries.

On January 7, 2014, the Corporation renewed its tax loss consolidation transactions with IGM. The Corporation acquired $1.67 billion of 4.50% secured debentures of IGM. As sole consideration for the debentures a wholly owned subsidiary of Power Financial issued $1.67 billion of 4.51% preferred shares to IGM. The Corporation has legally enforceable rights to settle these financial instruments on a net basis and the Corporation intends to exercise these rights.

KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The persons included in the key management personnel are the members of the Board of Directors of the Corporation, as well as certain management executives of the Corporation and its subsidiaries.

The following table describes all compensation paid to, awarded to, or earned by each of the key management personnel for services rendered in all capacities to the Corporation and its subsidiaries:

YEARS ENDED DECEMBER 31	2013	2012
Compensation and employee benefits	19	16
Post-employment benefits	4	7
Share-based payments	9	9
	32	32

NOTE 34 SEGMENTED INFORMATION

The Corporation's reportable operating segments are Lifeco, IGM and Parjointco. These reportable segments reflect Power Financial's management structure and internal financial reporting. The following provides a brief description of the three reportable operating segments:

> Lifeco offers, in Canada, the United States, Europe and Asia, a wide range of life insurance, retirement and investment products, as well as reinsurance and specialty general insurance products, to individuals, businesses and other private and public organizations.

> IGM offers a comprehensive package of financial planning services and investment products to its client base. IGM derives its revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenue from fees charged to its mutual funds for administrative services.

> Parjointco holds the Corporation's interest in Pargesa, a holding company with diversified interests in Europe-based companies active in various sectors: minerals-based specialties for industry; cement, aggregates and concrete; oil, gas and alternative energies; electricity, natural gas, and energy and environmental services; water and waste management services; wines and spirits; and testing, inspection and certification.

The column entitled Corporate is made up of corporate activities of Power Financial and also includes consolidation elimination entries.

The accounting policies of the operating segments are those described in Note 2 – Basis of Presentation and Summary of Significant Accounting Policies of these financial statements.

The Corporation evaluates the performance based on the operating segment's contribution to consolidated net earnings. Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets. The contribution to consolidated net earnings of each segment is calculated after taking into account the investment Lifeco and IGM have in each other.

NOTE 34 SEGMENTED INFORMATION (CONTINUED)

INFORMATION ON PROFIT MEASURE

FOR THE YEAR ENDED DECEMBER 31, 2013	LIFECO	IGM	PARJOINTCO	CORPORATE	TOTAL
REVENUES					
Premium income, net	20,236	–	–	–	20,236
Investment income, net	2,605	177	–	(121)	2,661
Fee income	3,585	2,513	–	(165)	5,933
	26,426	2,690	–	(286)	28,830
EXPENSES					
Total paid or credited to policyholders	17,811	–	–	–	17,811
Commissions	1,869	886	–	(165)	2,590
Operating and administrative expenses	3,693	730	–	51	4,474
Financing charges	292	92	–	16	400
	23,665	1,708	–	(98)	25,275
	2,761	982	–	(188)	3,555
Share of earnings of investments in jointly controlled corporations and associate	20	–	114	–	134
Earnings before income taxes	2,781	982	114	(188)	3,689
Income taxes	463	211	–	4	678
Contribution to net earnings	2,318	771	114	(192)	3,011
Attributable to					
Non-controlling interests	776	326	–	(118)	984
Perpetual preferred shareholders	–	–	–	131	131
Common shareholders	1,542	445	114	(205)	1,896
	2,318	771	114	(192)	3,011

INFORMATION ON ASSETS AND LIABILITIES MEASURE

DECEMBER 31, 2013	LIFECO	IGM	PARJOINTCO	CORPORATE	TOTAL
Goodwill	6,272	2,833	–	–	9,105
Total assets	325,975	12,340	2,437	959	341,711
Total liabilities	305,906	8,173	–	529	314,608

GEOGRAPHIC INFORMATION

DECEMBER 31, 2013	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets (including cash and cash equivalents)	67,129	31,206	40,919	139,254
Investments in jointly controlled corporations and associate	–	–	2,664	2,664
Investments on account of segregated fund policyholders	62,204	28,168	70,407	160,779
Other assets	3,650	3,356	17,622	24,628
Goodwill and intangible assets	10,158	1,828	2,400	14,386
Total assets	143,141	64,558	134,012	341,711
Total revenues	15,211	5,231	8,388	28,830

NOTE 34 SEGMENTED INFORMATION (CONTINUED)

INFORMATION ON PROFIT MEASURE

FOR THE YEAR ENDED DECEMBER 31, 2012	LIFECO	IGM	PARJOINTCO	CORPORATE	TOTAL
REVENUES					
Premium income, net	19,257	–	–	–	19,257
Investment income, net	8,310	153	–	(88)	8,375
Fee income	3,030	2,424	–	(152)	5,302
	30,597	2,577	–	(240)	32,934
EXPENSES					
Total paid or credited to policyholders	22,875	–	–	–	22,875
Commissions	1,781	858	–	(152)	2,487
Operating and administrative expenses	3,080	669	–	57	3,806
Financing charges	299	92	–	18	409
	28,035	1,619	–	(77)	29,577
	2,562	958	–	(163)	3,357
Share of earnings of investments in jointly controlled corporations and associate	–	–	130	–	130
Earnings before income taxes	2,562	958	130	(163)	3,487
Income taxes	364	190	–	5	559
Contribution to net earnings	2,198	768	130	(168)	2,928
Attributable to					
Non-controlling interests	964	328	–	(99)	1,193
Perpetual preferred shareholders	–	–	–	117	117
Common shareholders	1,234	440	130	(186)	1,618
	2,198	768	130	(168)	2,928

INFORMATION ON ASSETS AND LIABILITIES MEASURE

DECEMBER 31, 2012	LIFECO	IGM	PARJOINTCO	CORPORATE	TOTAL
Goodwill	5,857	2,816	–	–	8,673
Total assets	253,924	11,539	2,121	1,002	268,586
Total liabilities	236,839	7,522	–	560	244,921

GEOGRAPHIC INFORMATION

DECEMBER 31, 2012	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets (including cash and cash equivalents)	65,084	28,722	33,110	126,916
Investments in jointly controlled corporations and associate	–	–	2,121	2,121
Investments on account of segregated fund policyholders	54,638	23,809	26,985	105,432
Other assets	3,889	3,051	13,571	20,511
Goodwill and intangible assets	10,129	1,721	1,756	13,606
Total assets	133,740	57,303	77,543	268,586
Total revenues	16,298	6,422	10,214	32,934

JANUARY 1, 2012	CANADA	UNITED STATES	EUROPE	TOTAL
Invested assets (including cash and cash equivalents)	62,211	27,402	31,063	120,676
Investments in jointly controlled corporations and associate	–	–	2,205	2,205
Investments on account of segregated fund policyholders	49,850	22,359	24,776	96,985
Other assets	3,823	2,962	12,559	19,344
Goodwill and intangible assets	10,280	1,769	1,760	13,809
Total assets	126,164	54,492	72,363	253,019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF POWER FINANCIAL CORPORATION

We have audited the accompanying consolidated financial statements of Power Financial Corporation, which comprise the consolidated balance sheets as at December 31, 2013, December 31, 2012 and January 1, 2012, and the consolidated statements of earnings, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2013 and December 31, 2012 and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Power Financial Corporation as at December 31, 2013, December 31, 2012 and January 1, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

Signed,

Deloitte LLP [1]

March 19, 2014
Montréal, Québec

[1] CPA auditor, CA, public accountancy permit No. A104630

FIVE-YEAR FINANCIAL SUMMARY

DECEMBER 31 [IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS] (UNAUDITED)	2013	2012[1]	2011[2]	2010[2]	CGAAP 2009
CONSOLIDATED BALANCE SHEETS					
Cash and cash equivalents	4,344	3,313	3,385	3,656	4,855
Total assets	341,711	268,586	252,678	244,644	140,231
Shareholders' equity	16,113	13,563	13,521	12,811	13,207
CONSOLIDATED STATEMENTS OF EARNINGS					
REVENUES					
Premium income, net	20,236	19,257	17,293	17,748	18,033
Investment income, net	2,661	8,375	9,764	9,600	9,678
Fee income	5,933	5,302	5,343	5,174	4,998
	28,830	32,934	32,400	32,522	32,709
EXPENSES					
Total paid or credited to policyholders	17,811	22,875	23,043	23,225	23,809
Commissions	2,590	2,487	2,312	2,216	2,088
Operating and administrative expenses	4,474	3,806	3,006	3,837	3,607
Financing charges	400	409	409	432	494
	25,275	29,577	28,770	29,710	29,998
	3,555	3,357	3,630	2,812	2,711
Share of earnings (losses) of investments in jointly controlled corporations and associate	134	130	(20)	121	71
Earnings before income taxes – continuing operations	3,689	3,487	3,610	2,933	2,782
Income taxes	678	559	706	523	565
Net earnings – continuing operations	3,011	2,928	2,904	2,410	2,217
Net earnings – discontinued operations	–	–	63	2	–
Net earnings	3,011	2,928	2,967	2,412	2,217
Attributable to					
Non-controlling interests	984	1,193	1,141	845	778
Perpetual preferred shareholders	131	117	104	99	88
Common shareholders	1,896	1,618	1,722	1,468	1,351
	3,011	2,928	2,967	2,412	2,217
PER SHARE					
Operating earnings attributable to common shareholders	2.40	2.37	2.44	2.30	2.05
Net earnings attributable to common shareholders from discontinued operations	–	–	0.05	–	–
Net earnings attributable to common shareholders	2.67	2.29	2.43	2.08	1.92
Dividends declared on common shares	1.4000	1.4000	1.4000	1.4000	1.4000
Book value at year-end	18.78	15.95	16.26	15.26	16.27
MARKET PRICE (COMMON SHARES)					
High	36.79	30.15	31.98	34.23	31.99
Low	27.02	24.06	23.62	27.00	14.66
Year-end	36.00	27.24	25.54	30.73	31.08

QUARTERLY FINANCIAL INFORMATION

IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS] (UNAUDITED)	TOTAL REVENUES[1]	NET EARNINGS	NET EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS	EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS – BASIC	EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS – DILUTED
2013					
First quarter	8,150	692	394	0.55	0.55
Second quarter	4,236	780	475	0.67	0.67
Third quarter	7,803	744	434	0.61	0.61
Fourth quarter	8,641	795	593	0.84	0.84
2012					
First quarter	7,111	710	454	0.64	0.64
Second quarter	8,376	691	429	0.61	0.60
Third quarter	9,216	809	458	0.65	0.65
Fourth quarter	8,231	718	277	0.39	0.38

[1] During the year, the Corporation reclassified comparative figures for presentation adjustments.

[2] The 2011 and 2010 figures have not been adjusted to reflect current year reclassifications and new and revised IFRS adopted on January 1, 2013.