MARCH 19, 2014

This Annual Report is intended to provide interested shareholders and others with selected information concerning Power Financial Corporation. For further information concerning the Corporation, shareholders and other interested persons should consult the Corporation's disclosure documents, such as its Annual Information Form and Management's Discussion and Analysis (MD&A). Copies of the Corporation's continuous disclosure documents can be obtained at www.sedar.com, on the Corporation's website at www.powerfinancial.com, or from the office of the Secretary at the addresses shown at the end of this report.

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

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

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

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

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

Readers are reminded that a list of the abbreviations used throughout can be found at the beginning of this Annual Report. In addition, the following abbreviations are used in the Review of Financial Performance and in the Financial Statements and Notes thereto: Audited Consolidated Financial Statements of Power Financial and Notes thereto for the year ended December 31, 2013 (the 2013 Consolidated Financial Statements or the Financial Statements); International Financial Reporting Standards (IFRS); previous Canadian generally accepted accounting principles (previous Canadian GAAP).

OVERVIEW

Power Financial, a subsidiary of Power Corporation, is a holding company with substantial interests in the financial services sector in Canada, the United States and Europe, through its controlling interests in Lifeco and IGM. Power Financial also holds, together with the Frère Group of Belgium, a controlling interest in Pargesa.

Lifeco (TSX: GWO) and IGM (TSX: IGM) are public companies listed on the Toronto Stock Exchange. Pargesa is a public company listed on the Swiss Stock Exchange (SIX: PARG).

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 all outstanding Lifeco voting shares. As at December 31, 2013, Power Financial and Great-West Life, a subsidiary of Lifeco, held 58.6% and 3.6%, respectively, of IGM's common shares.

On July 18, 2013, Lifeco completed its €1.3 billion acquisition of Irish Life. Established in 1939, Irish Life is the largest life and pensions group and investment manager in Ireland.

Funding for the transaction included the net proceeds of the issuance by Lifeco of approximately $1.25 billion of subscription receipts completed on March 12, 2013, of which the Corporation subscribed for $550 million. On completion of the acquisition of Irish Life on July 18, 2013, the 48,660,000 subscription receipts were automatically exchanged on a one-for-one basis for common shares of Lifeco.

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 issuance of euro-denominated debt results in a natural hedge of a portion of Lifeco's net investment in euro-denominated foreign operations.

The purchase price of €1.3 billion has all been allocated to assets and liabilities of Irish Life, primarily based on their fair values at the acquisition date of July 18, 2013. As at December 31, 2013, the valuation of assets acquired and liabilities assumed is substantially complete. The excess of the purchase price over the fair value of net assets acquired of $378 million has been allocated to goodwill.

The integration of the business is progressing well and remains on track to deliver cost synergies of €40 million per year with a total cost of integration of €60 million.

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère Group of Belgium each hold a 50% interest in Parjointco, which, as at December 31, 2013, held a 55.6% interest in Pargesa, representing 75.4% of the voting rights of that company.

Pargesa's holdings in major companies based in Europe are held through its affiliated Belgian holding company, GBL, which is listed on the Brussels Stock Exchange (BEL20: GBLB). As at December 31, 2013, Pargesa held a 50% interest in GBL, representing 52% of the voting rights.

As at December 31, 2013, Pargesa's portfolio was substantially composed of investments in: Imerys (mineral-based specialties for industry); Lafarge (cement aggregates and concrete); Total (oil, gas and alternative energies); GDF Suez (electricity, natural gas, and energy and environmental services); Suez Environnement (water and waste management services); Pernod Ricard (wines and spirits); and SGS (testing, inspection and certification).

In addition to its strategic participations, which will still form most of the portfolio, GBL undertook in 2012 to develop over time:

[i] An incubator portfolio comprised of interests in a reduced number of listed and unlisted companies. The investments would be smaller in size than the strategic participations;

[ii] investments in private equity and other funds where GBL acts as an anchor investor.

Additional information on GBL is available on GBL's website (www.gbl.be).

BASIS OF PRESENTATION

The 2013 Consolidated Financial Statements of the Corporation have been prepared in accordance with IFRS and are presented in Canadian dollars.

Lifeco and IGM are controlled by Power Financial and their financial statements are consolidated with those of Power Financial. Consolidated financial statements present, as a single economic entity, the assets, liabilities, revenues, expenses and cash flows of the parent company and its operating subsidiaries (consolidation of financial statements consists of adding, on a line-by-line basis, the different components of the financial statements of Power Financial (parent) and Lifeco and IGM (its subsidiaries) and eliminating intercompany balances and transactions).

Power Financial's investment in Pargesa is held through Parjointco. Parjointco's only investment is its joint controlling interest in Pargesa. The investment in Parjointco is accounted for by Power Financial in accordance with the equity method of accounting as the Corporation has joint control over its relevant activities. The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets (shareholders' equity). The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

As described above, the Pargesa portfolio consists primarily of investments in Imerys, Lafarge, Total, GDF Suez, Suez Environnement, Pernod Ricard and SGS, which are all held through GBL. GBL's financial statements are consolidated with Pargesa's financial statements.

> GBL holds a 56.2% controlling interest in Imerys and therefore consolidates the financial statements of Imerys with its own.

> Lafarge, over which GBL has significant influence holding a 21% equity interest, is accounted for by GBL using the equity method and, consequently, the contribution from Lafarge to GBL's earnings consists of GBL's share of Lafarge's net earnings.

> Portfolio investments in which GBL holds less than a 20% equity interest consisting of Total, GDF Suez, Suez Environnement, Pernod Ricard and SGS, are classified for accounting purposes as available-for-sale investments.

Accounting for the Corporation's holdings is as follows:

DEGREE OF CONTROL	BASIS OF ACCOUNTING	EFFECT ON EARNINGS AND OTHER COMPREHENSIVE INCOME	IMPAIRMENT TESTING	IMPAIRMENT REVERSAL
Subsidiaries	> Operating company subsidiaries > Consolidation	> Consolidated with non-controlling interest	> Goodwill and indefinite life intangible assets are annually tested for impairment	> Goodwill impairment cannot be reversed > Intangible asset impairment is reversed if there is evidence of recovery of value
Holdings over which the Corporation exercises significant influence or joint control	> Equity method of accounting	> Earnings and other comprehensive income recorded represent the Corporation's share	> Entire investment is tested for impairment	> Reversed if there is evidence the investment has recovered its value
Portfolio investments	> Available for sale (AFS)	> Earnings consist of dividends received > The investments are marked to market through other comprehensive income > Earnings are reduced by impairment charges, if any	> Impairment testing is done at the individual investment level > A significant or prolonged decline in the value of the investment results in an impairment charge	> Cannot be reversed even if there is a subsequent recovery of value > A subsequent decrease in stock price leads to a further impairment

This summary of accounting should be read in conjunction with the following notes to the Corporation's 2013 Consolidated Financial Statements: Basis of presentation and summary of significant accounting policies, Investments, Investments in jointly controlled corporations and associate, Goodwill and intangible assets, and Non-controlling interests.

NON-IFRS FINANCIAL MEASURES AND PRESENTATIONS

In analyzing the financial results of the Corporation and consistent with the presentation in previous years, net earnings attributable to common shareholders are classified in the section "Results of Power Financial Corporation" as:

> **operating earnings** attributable to common shareholders; and

> **other items** or non-operating earnings, which include the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful, and also include the Corporation's share of any such item presented in a comparable manner by its subsidiaries and Pargesa.

Management uses these financial measures in its presentation and analysis of the financial performance of Power Financial, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. Operating earnings, as defined by the Corporation, assists the reader in comparing the current period's results to those of previous periods as items of a non-recurring nature are not included in this non-IFRS measure.

Operating earnings attributable to common shareholders and operating earnings per share are non-IFRS financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. For a reconciliation of these non-IFRS measures to results reported in accordance with IFRS, see the "Results of Power Financial Corporation – Earnings Summary – Condensed Supplementary Statements of Earnings" below.

In this review of financial performance, a non-consolidated basis of presentation is also used by the Corporation to present and explain its results, financial position and cash flows. In this basis of presentation, Power Financial's interests in Lifeco and IGM are accounted for using the equity method. This non-consolidated basis, which is a non-IFRS presentation, is useful as it isolates the parent's corporate activities from those of operating subsidiaries reflecting their respective contributions.

RESULTS OF POWER FINANCIAL CORPORATION

EARNINGS SUMMARY — CONDENSED SUPPLEMENTARY STATEMENTS OF EARNINGS

The following table shows a reconciliation of non-IFRS financial measures used herein for the periods indicated, with the reported results in accordance with IFRS for net earnings attributable to common shareholders and earnings per share. In this section, the contributions from Lifeco and IGM, which represent most of the earnings of Power Financial, are accounted for using the equity method. The contribution to net earnings attributable to common shareholders as presented in Note 34 – *Segmented Information* to the 2013 Consolidated Financial Statements of the Corporation is comprised of operating earnings and other items.

NON-CONSOLIDATED BASIS

TWELVE MONTHS ENDED DECEMBER 31	2013	2012
Contribution to operating earnings from:		
Lifeco	1,391	1,329
IGM	446	433
Pargesa	76	102
	1,913	1,864
Results from corporate activities	(74)	(69)
Dividends on perpetual preferred shares	(131)	(117)
Operating earnings attributable to common shareholders	1,708	1,678
Other items		
Lifeco	151	(95)
IGM	(1)	7
Pargesa	38	28
	188	(60)
Net earnings attributable to common shareholders	1,896	1,618
Earnings per share (attributable to common shareholders)		
– operating earnings	2.40	2.37
– non-operating earnings	0.27	(0.08)
– net earnings	2.67	2.29

OPERATING EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS

Operating earnings attributable to common shareholders for the year ended December 31, 2013 were $1,708 million or $2.40 per share, compared with $1,678 million or $2.37 per share in the corresponding period in 2012.

Included in operating earnings are the Corporation's share of restructuring and acquisition costs associated with the Irish Life acquisition for an amount of $68 million in 2013 and a charge of $36 million related to the six-month equity put options on the S&P 500 purchased by Lifeco and Power Financial (see also the "Risk Factors" section).

> Operating earnings attributable to common shareholders excluding these costs were $1,812 million or $2.55 per share for the twelve-month period ended December 31, 2013.

CONTRIBUTION TO OPERATING EARNINGS FROM LIFECO, IGM AND PARGESA

Power Financial's share of operating earnings from Lifeco, IGM and Pargesa increased by 2.6% for the year ended December 31, 2013, compared with the same period in 2012, from $1,864 million to $1,913 million.

Lifeco

Lifeco's contribution to Power Financial's operating earnings for the year ended December 31, 2013, was $1,391 million, compared with $1,329 million for the corresponding period in 2012. Details are as follows:

> Lifeco reported operating earnings attributable to common shareholders of $2,052 million or $2.108 per share for the year ended December 31, 2013, compared with $1,946 million or $2.049 per share in the corresponding period in 2012, an increase of 2.9% on a per share basis.

> In 2013, Irish Life contributed $85 million (excluding restructuring costs), to Lifeco's earnings. Included in Lifeco's earnings for 2013 were restructuring and acquisition costs of $97 million after tax associated with the Irish Life acquisition.

The following table shows a summary of the results of Lifeco's operating segments:

TWELVE MONTHS ENDED DECEMBER 31	2013	2012
Operating earnings attributable to Lifeco common shareholders		
Canada	1,148	1,038
United States	276	321
Europe	701	615
Lifeco Corporate	(73)	(28)
	2,052	1,946

IGM Financial

IGM's contribution to Power Financial's operating earnings was $446 million for the year ended December 31, 2013, compared with $433 million for the corresponding period in 2012. Details are as follows:

> IGM reported operating earnings available to common shareholders of $764 million or $3.02 per share for the year ended December 31, 2013, compared with $746 million or $2.92 per share in the same period in 2012, an increase of 3.4% on a per share basis.

Operating earnings before interest and taxes (a non-IFRS measure) of IGM's reportable segments are as follows:

TWELVE MONTHS ENDED DECEMBER 31	2013	2012
Investors Group	718	693
Mackenzie	251	251
Corporate and other	110	112
	1,079	1,056

> Total assets under management were $131.8 billion as at December 31, 2013, the highest year-end level in the history of IGM, compared with $120.7 billion as at December 31, 2012.

The average daily mutual fund assets under management were as follows:

QUARTERS (IN BILLIONS OF DOLLARS)	2013	2012
First	106.9	103.6
Second	108.4	100.9
Third	110.2	101.0
Fourth	114.6	102.4

> In the second quarter of 2012, Investors Group, a subsidiary of IGM, announced a number of changes in the pricing of its mutual funds and product enhancements designed to expand its services to clients. These changes became fully annualized in the third quarter of 2013.

Pargesa

Pargesa's contribution to Power Financial's operating earnings was $76 million for the twelve-month period ended December 31, 2013, compared with a contribution of $102 million in the corresponding period in 2012. Details are as follows:

> Pargesa's operating earnings for the twelve-month period ended December 31, 2013 were SF251 million, compared with SF346 million in the corresponding period in 2012.

> The contribution from Imerys in the twelve-month period ended December 31, 2013 was SF110 million, compared with SF108 million in the corresponding period of 2012.

> The contribution from Lafarge in the twelve-month period ended December 31, 2013 was SF72 million, compared with SF93 million in the corresponding period of 2012.

> A significant portion of Pargesa's earnings consists of dividends received from Total (approved in the second, third and fourth quarter), GDF Suez (approved in the second and third quarter), Suez Environnement (approved in the second quarter) and Pernod Ricard (approved in the second and fourth quarter). SGS, in which a 15% interest was acquired in March 2013, did not contribute to the operating earnings of 2013 since its 2013 dividend was paid prior to the acquisition. In accordance with IFRS, the Pargesa group records dividends as earnings in the period they are approved.

> Pargesa's share of dividends recorded on these investments was SF232 million in the twelve-month period ended December 31, 2013, compared with SF270 million in the corresponding period in 2012. The decrease in 2013, is mainly due to the partial disposal of GDF Suez shares in the second quarter of 2013 and, to a lesser extent, the disposal of a 0.3% interest in Total in the fourth quarter.

> Operating earnings for the twelve-month period ended December 31, 2013, include Pargesa's share of a non-cash charge recorded by GBL in the amount of SF83 million related to call options embedded in bonds exchangeable in Suez Environnement shares (issued in 2012) and GDF Suez shares (issued in 2013) and on bonds issued by GBL in 2013 convertible into GBL shares. The loss is the result of the rise of the price of the shares underlying the bonds.

RESULTS OF CORPORATE ACTIVITIES

Results of corporate activities include interest on cash and cash equivalents, operating expenses, financing charges, depreciation and income taxes.

Corporate activities represented a net charge of $74 million in the twelve-month period ended December 31, 2013, compared with a net charge of $69 million in the corresponding period in 2012.

Results from corporate activities include a charge of $18 million related to the six-month equity put options on the S&P 500 purchased by the Corporation in 2013. (see also the "Risk Factors" section).

Results from corporate activities also include an amount of $9 million related to the partial recognition of the benefit of loss carry forwards of the Corporation following the renewal of the tax loss consolidation transactions with IGM.

OTHER ITEMS

TWELVE MONTHS ENDED DECEMBER 31	2013	2012
Lifeco		
Litigation provision	151	(96)
Share of IGM other items	–	1
IGM		
Non-cash income tax charge	–	(4)
Changes in the status of certain income tax filings	–	14
Restructuring and other charges	(6)	–
Share of Lifeco other items	5	(3)
Pargesa		
Impairment charges on GDF Suez	(13)	(48)
Gain on partial disposal of GDF Suez	15	–
Gain on partial disposal of Total	38	–
Gain on partial disposal of Pernod Ricard	–	46
Gain on disposal of Arkema	–	43
Other (charge) income	(2)	(13)
	188	(60)

Other items in 2013 mainly comprised the Corporation's share of:

> A recovery of $226 million, net of tax, recorded by Lifeco in the fourth quarter relating to a decision of the Court of Appeal for Ontario on February 3, 2014 in regards to the involvement of the participating accounts of Lifeco subsidiaries London Life and Great-West Life in the financing of the London Insurance Group Inc. acquisition in 1997.

> After-tax restructuring and other charges recorded by IGM in the fourth quarter for an amount of $6 million.

> An impairment charge recorded by GBL, in the first quarter, on its investment in GDF Suez for an amount of $13 million.

> A gain recorded by GBL in the second quarter on a partial disposal of its interest in GDF Suez for an amount of $15 million.

> The gain realized by GBL in the fourth quarter on the partial disposal of its interest in Total for an amount of $38 million.

Other items in 2012 mainly comprised the Corporation's share of:

> A charge reported by Lifeco relating to litigation provision adjustments of $99 million (of which $3 million was recorded by IGM), net of tax, in the fourth quarter.

> A non-cash charge recorded by IGM in the second quarter resulting from increases in Ontario corporate income tax rates and their effect on the deferred income tax liability related to indefinite life intangible assets arising from prior business acquisitions, as well as the recording in the fourth quarter of 2012 of a favourable change in income tax provision estimates related to certain tax filings.

> GBL's impairment of its investment in GDF Suez in the fourth quarter, representing an amount of $48 million, net of foreign currency gains recorded by Pargesa and the Corporation.

> The gains realized by GBL in the first quarter on the partial disposal of its interest in Pernod Ricard in the amount of $46 million and on the disposal of its interest in Arkema in the amount of $43 million.

> Goodwill impairment and restructuring charges recorded by Lafarge in the first and second quarters shown in the table as other charge.

NET EARNINGS ATTRIBUTABLE TO COMMON SHAREHOLDERS

Net earnings attributable to common shareholders for the twelve-month period ended December 31, 2013 were $1,896 million or $2.67 per share, compared with $1,618 million or $2.29 per share in the corresponding period in 2012.

CONDENSED SUPPLEMENTARY BALANCE SHEETS

CONSOLIDATED BASIS

The following table presents the components of the Corporation's condensed consolidated balance sheets. The Lifeco and IGM columns are their condensed consolidated balance sheets and Power Financial's column is its non-consolidated balance sheet.

					POWER FINANCIAL CONSOLIDATED BASIS	
	POWER FINANCIAL	LIFECO	IGM	ELIMINATIONS AND RECLASSIFICATIONS	DECEMBER 31, 2013	DECEMBER 31, 2012
ASSETS						
Cash and cash equivalents	925	2,791	1,082	(454)	4,344	3,313
Investments	27	128,574	5,920	389	134,910	123,603
Investments in Lifeco and IGM	13,285	350	718	(14,353)	–	–
Investment in Parjointco	2,437	–	–	–	2,437	2,121
Investments in a jointly controlled corporation and an associate	–	227	–	–	227	–
Funds held by ceding insurers	–	10,832	–	–	10,832	10,599
Reinsurance assets	–	5,070	–	–	5,070	2,064
Intangible assets	–	3,456	1,825	–	5,281	4,933
Goodwill	–	5,812	2,656	637	9,105	8,673
Other assets	120	8,014	679	(87)	8,726	7,848
Interest on account of segregated fund policyholders	–	160,779	–	–	160,779	105,432
Total assets	16,794	325,905	12,880	(13,868)	341,711	268,586
LIABILITIES						
Insurance and investment contract liabilities	–	132,063	–	–	132,063	120,712
Obligations to securitization entities	–	–	5,572	–	5,572	4,701
Debentures and debt instruments	250	5,740	1,325	(40)	7,275	5,817
Capital trust debentures	–	163	–	–	163	164
Other liabilities	431	7,161	1,275	(111)	8,756	8,095
Insurance and investment contracts on account of segregated fund policyholders	–	160,779	–	–	160,779	105,432
Total liabilities	681	305,906	8,172	(151)	314,608	244,921
EQUITY						
Perpetual preferred shares	2,755	2,314	150	(2,464)	2,755	2,255
Common shareholders' equity	13,358	15,323	4,558	(19,881)	13,358	11,308
Non-controlling interests	–	2,362	–	8,628	10,990	10,102
Total equity	16,113	19,999	4,708	(13,717)	27,103	23,665
Total liabilities and equity	16,794	325,905	12,880	(13,868)	341,711	268,586

The consolidated balance sheets include the Corporation's assets and liabilities as well as Lifeco's and IGM's.

Total assets of the Corporation increased to $341.7 billion at December 31, 2013, compared with $268.6 billion at December 31, 2012.

> Lifeco's acquisition of Irish Life resulted in increases in investments and other assets for an amount of $10.2 billion and segregated fund assets for an amount of $36.3 billion.

> Investments at December 31, 2013 were $134.9 billion, an $11.3 billion increase from December 31, 2012, primarily related to Lifeco. See also the discussion in the "Cash Flows" section below.

Liabilities increased from $244.9 billion at December 31, 2012 to $314.6 billion at December 31, 2013, mainly due to Lifeco's acquisition of Irish Life.

> Insurance and investment contract liabilities increased by $11.4 billion, primarily due to the $7.0 billion impact of Lifeco's acquisition of Irish Life.

> Insurance and investment contract liabilities on account of segregated fund policyholders increased by $55.3 billion, primarily due to the $36.3 billion impact of the Irish Life acquisition, market value gains and investment income of $12.9 billion, and the impact of currency movements of $7.2 billion.

NON-CONSOLIDATED BASIS

In the non-consolidated basis of presentation, Lifeco and IGM are accounted for by the Corporation using the equity method. This non-consolidated basis of presentation, which is not in accordance with IFRS, enhances the review of financial performance and assists the reader by identifying changes in Power Financial's non-consolidated balance sheets which includes its investments in Lifeco and IGM at equity.

DECEMBER 31	2013	2012
ASSETS		
Cash and cash equivalents[1]	925	984
Investments	27	–
Investments in subsidiaries at equity	13,285	11,042
Investment in Parjointco at equity	2,437	2,121
Other assets	120	102
Total assets	16,794	14,249
LIABILITIES		
Debentures	250	250
Other liabilities	431	436
Total liabilities	681	686
EQUITY		
Perpetual preferred shares	2,755	2,255
Common shareholders' equity	13,358	11,308
Total equity	16,113	13,563
Total liabilities and equity	16,794	14,249

[1] Non-consolidated basis of presentation – cash equivalents include $454 million ($625 million at December 31, 2012) of fixed income securities with maturities of more than 90 days. In the 2013 Consolidated Financial Statements, this amount is classified in investments.

Cash and cash equivalents held by Power Financial amounted to $925 million at December 31, 2013, compared with $984 million at the end of December 2012 (see the "Cash Flows – Non-consolidated Basis" section below for details). The amount of quarterly dividends declared by the Corporation but not yet paid was $282 million at December 31, 2013. Dividends declared by IGM but not yet received by the Corporation were $80 million at December 31, 2013.

In managing its cash and cash equivalents, Power Financial may hold cash balances or invest in short-term paper or equivalents. As well, Power Financial holds deposits denominated in foreign currencies and can be exposed to fluctuations in exchange rates. To mitigate the effect of such fluctuations, Power Financial may, from time to time, enter into currency hedging transactions with counterparties having high credit ratings. As at December 31, 2013, approximately 91% of the $925 million of cash and cash equivalents was denominated in Canadian dollars or in foreign currencies with currency hedges in place.

The carrying value of Power Financial's investments in Lifeco, IGM and Parjointco increased to $15,722 million at December 31, 2013, compared with $13,163 million at December 31, 2012, as outlined in the following table:

	LIFECO	IGM	PARJOINTCO	TOTAL
Carrying value, at the beginning of the year	8,488	2,554	2,121	13,163
Investment in subsidiaries	545	–	–	545
Share of operating earnings	1,391	446	76	1,913
Share of other items	151	(1)	38	188
Share of other comprehensive income (loss)	688	39	260	987
Dividends	(810)	(318)	(63)	(1,191)
Other, including effect of change in ownership	115	(3)	5	117
Carrying value, at December 31, 2013	10,568	2,717	2,437	15,722

SHAREHOLDERS' EQUITY

Perpetual preferred shares On February 28, 2013, the Corporation issued 12,000,000 4.80% Non-Cumulative First Preferred Shares, Series S, for gross proceeds of $300 million.

On December 11, 2013, the Corporation issued 8,000,000 4.20% Non-Cumulative 5-year Rate Reset First Preferred Shares, Series T, for gross proceeds of $200 million.

On January 31, 2014, the Corporation redeemed all of its $175 million 6.00% Non-Cumulative 5-year Rate Reset First Preferred Shares, Series M.

Common shareholders' equity Common shareholders' equity was $13,358 million at December 31, 2013, compared with $11,308 million at December 31, 2012. This $2,050 million increase was primarily due to:

> A $1,003 million increase in retained earnings, reflecting mainly net earnings of $2,027 million, less dividends declared of $1,127 million and other increases of $103 million principally due to a dilution gain related to the decrease in ownership of Lifeco as a result of Lifeco issuing common shares in the third quarter of 2013.

> An increase in reserves (other comprehensive income and amounts related to share-based compensation) of $990 million, consisting of:
  > An increase of $296 million due to actuarial gains related to pension plans of the Corporation and of its subsidiaries.
  > Positive foreign currency translation adjustments of $566 million.
  > A decrease of $127 million related to the Corporation and its subsidiaries' available-for-sale investments and cash flow hedges.
  > An increase of $270 million mainly related to the Corporation's share of other comprehensive income of Pargesa.
  > A net decrease of $15 million in 2013 related to share-based compensation of the Corporation and its subsidiaries.

> In the twelve-month period ended December 31, 2013, 2,069,600 common shares (930,400 in the corresponding period of 2012) were issued by the Corporation pursuant to the Corporation's Employee Stock Option Plan for an aggregate consideration of $57 million ($25 million in 2012), including an amount of $12 million ($5 million in 2012) representing the cumulative expenses related to these options.

As a result of the above, the book value per common share of the Corporation was $18.78 at December 31, 2013, compared with $15.95 at the end of 2012.

OUTSTANDING NUMBER OF COMMON SHARES

As of the date hereof, there were 711,173,680 common shares of the Corporation outstanding, compared with 709,104,080 as at December 31, 2012. The increase in the number of outstanding common shares reflects the exercise of options under the Corporation's Employee Stock Option Plan. As of the date hereof, options were outstanding to purchase up to an aggregate of 7,522,386 common shares of the Corporation under the Corporation's Employee Stock Option Plan.

The Corporation filed a short-form base shelf prospectus dated November 23, 2012, pursuant to which, for a period of 25 months thereafter, the Corporation may issue up to an aggregate of $1.5 billion of First Preferred Shares, common shares and unsecured debt securities, or any combination thereof. This filing provides the Corporation with the flexibility to access debt and equity markets on a timely basis to make changes to the Corporation's capital structure in response to changes in economic conditions and changes in its financial condition.

CASH FLOWS

CONSOLIDATED BASIS (CONDENSED)

TWELVE MONTHS ENDED DECEMBER 31	2013	2012
Cash flow from:		
Operating activities	5,651	5,369
Financing activities	618	(561)
Investing activities	(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, at the beginning of the year	3,313	3,385
Cash and cash equivalents, at December 31	4,344	3,313

On a consolidated basis, cash and cash equivalents increased by $1,031 million in the twelve-month period ended December 31, 2013, compared with a decrease of $72 million in the corresponding period of 2012.

Operating activities produced a net inflow of $5,651 million in the twelve-month period ended December 31, 2013, compared with a net inflow of $5,369 million in the corresponding period of 2012.

Operating activities during the twelve-month period ended December 31, 2013, compared to the same period in 2012, included:

> Lifeco's cash flow from operations, which was a net inflow of $5,026 million, compared with a net inflow of $4,722 million in the corresponding period in 2012. Cash provided by operating activities is used by Lifeco primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested by Lifeco to support future liability cash requirements.

> Operating activities of IGM which, after payment of commissions, generated cash flows of $715 million, compared with $710 million in the corresponding period of 2012.

Cash flows from financing activities, which include dividends paid on the common and preferred shares of the Corporation, as well as dividends paid by subsidiaries to non-controlling interests, represented a net inflow of $618 million in the twelve-month period ended December 31, 2013, compared with a net outflow of $561 million in the corresponding period of 2012.

Financing activities during the twelve-month period ended December 31, 2013, compared to the same period in 2012, included:

> Lifeco's cash flow from financing activities, representing a net inflow of $493 million, compared with a net outflow of $1,037 million in the corresponding period of 2012.

> Financing activities at IGM representing a net inflow of $117 million, compared with a net inflow of $136 million in the corresponding period of 2012.

> Dividends paid on common and preferred shares by the Corporation of $1,123 million, compared with $1,105 million in the corresponding period of 2012.

> Issuance of common shares of the Corporation for an amount of $45 million pursuant to the Corporation's Employee Stock Option Plan, compared with $20 million in the corresponding period of 2012.

> Issuance of preferred shares by the Corporation for an amount of $500 million, compared with an issuance of $250 million in the corresponding period of 2012.

Cash flows from investing activities resulted in a net outflow of $5,428 million in the twelve-month period ended December 31, 2013, compared with a net outflow of $4,872 million in the corresponding period of 2012.

Investing activities during the twelve-month period ended December 31, 2013, compared to the same period in 2012, included:

> Investing activities at Lifeco resulted in a net outflow of $4,813 million, compared with a net outflow of $3,838 million in the corresponding period of 2012.

> Investing activities at IGM resulted in a net outflow of $808 million, compared with a net outflow of $839 million in the corresponding period of 2012.

> In addition, the Corporation decreased its level of fixed income securities with maturities of more than 90 days, resulting in a net inflow of $171 million, compared with an increase in the corresponding period of 2012 for a net outflow of $195 million.

NON-CONSOLIDATED BASIS

TWELVE MONTHS ENDED DECEMBER 31	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES		
Net earnings before dividends on perpetual preferred shares	2,027	1,735
Earnings from Lifeco, IGM and Parjointco not received in cash	(910)	(624)
Other	(11)	8
	1,106	1,119
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid on common and preferred shares	(1,123)	(1,105)
Issuance of perpetual preferred shares	500	250
Issuance of common shares	45	20
Share issue costs	(14)	(7)
	(592)	(842)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of Lifeco common shares	(545)	–
Purchase of investment	(26)	–
Other	(2)	–
	(573)	–
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(59)	277
Cash and cash equivalents, at the beginning of the year	984	707
Cash and cash equivalents, at December 31	925	984

Power Financial is a holding company – corporate cash flows from operating activities, before payment of dividends on preferred shares and on common shares, are principally made up of dividends received from Lifeco, IGM and Parjointco 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 subsidiaries. The payment of interest and dividends by Lifeco's principal subsidiaries is subject to restrictions set out in relevant corporate and insurance laws and regulations, which require that solvency and capital ratios be maintained. The payment of dividends by IGM's principal subsidiaries is subject to corporate laws and regulations which require that solvency standards be maintained. In addition, certain subsidiaries of IGM must also comply with capital and liquidity requirements established by regulatory authorities.

Dividends declared by Lifeco and IGM during the twelve-month period ended December 31, 2013 on their common shares amounted to $1.23 and $2.15 per share, respectively, the same as in the corresponding period in 2012. In the twelve-month period ended December 31, 2013, the Corporation recorded dividends from Lifeco and IGM of $810 million ($797 million in 2012) and $318 million (the same as in 2012), respectively.

Pargesa declares and pays an annual dividend in the second quarter ending June 30. The dividend paid by Pargesa to Parjointco in 2013 amounted to SF2.57 per bearer share, the same as in 2012. The Corporation received dividends from Parjointco of SF59 million in 2013 (SF60 million in 2012).

In the twelve-month period ended December 31, 2013, dividends declared on the Corporation's common shares amounted to $1.40 per share, the same as in the corresponding period of 2012.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the preparation of the financial statements, management of the Corporation and of its subsidiaries – Lifeco and IGM – are required to make estimates and assumptions that affect the assets, liabilities, net earnings and related disclosures. Significant judgments made by management of the Corporation and of its subsidiaries and key sources of estimation uncertainty are: to entities to be consolidated, insurance and investment contract liabilities, fair value measurement, investment impairment, goodwill and intangible assets, income taxes, employee future benefits and deferred selling commissions. They are described in the notes to the 2013 Consolidated Financial Statements. The major critical accounting estimates are summarized below.

CONSOLIDATION

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

INSURANCE AND INVESTMENT CONTRACT LIABILITIES

Insurance and investment 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 insurance and investment contract liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation of insurance contracts 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.

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality and 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 mis-estimation 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.

Additional detail regarding these estimates can be found in Note 13 to the Corporation's 2013 Consolidated Financial Statements.

FAIR VALUE MEASUREMENT

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods that the Corporation, Lifeco and IGM 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 and its subsidiaries maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Corporation and its subsidiaries obtain 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 and its subsidiaries obtain 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.

INVESTMENT 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.

GOODWILL AND INTANGIBLES 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, there would be a requirement 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.

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 income 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 profit 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 difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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-rated corporate debt securities.

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.

DEFERRED SELLING COMMISSIONS

Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. 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. At December 31, 2013, there were no indications of impairment to deferred selling commissions.

CHANGES IN ACCOUNTING POLICIES

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

On January 1, 2013, the Corporation and its subsidiaries 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 consolidated 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.

The impact of the change in accounting policy on consolidated net earnings is as follows:

YEAR ENDED DECEMBER 31	2012
Net earnings as previously reported	2,940
Adjustment to net earnings	
Operating and administrative expenses	(12)
Share of earnings of investment in jointly controlled corporation	(4)
Income tax	4
	(12)
Net earnings restated	2,928

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 and its subsidiaries adopted IFRS 10, *Consolidated Financial Statements* (IFRS 10). The Corporation and its subsidiaries have 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 and its subsidiaries 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 to the Corporation's 2013 Consolidated Financial Statements for additional information on the presentation and disclosure of these structures.

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 and its subsidiaries 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 the interests in joint ventures with requiring entities to use the equity method in 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 a 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 and its subsidiaries 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 from 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 and its subsidiaries 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 to the Corporation's 2013 Consolidated Financial Statements). The standard has been applied on a prospective basis.

IAS 1—PRESENTATION OF FINANCIAL STATEMENTS On January 1, 2013, the Corporation and its subsidiaries 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 and its subsidiaries 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 to the Corporation's 2013 Consolidated Financial Statements).

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 and its subsidiaries 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 4—INSURANCE CONTRACTS In June 2013, the IASB issued a revised IFRS 4, *Insurance Contracts* exposure draft proposing changes to the accounting standard for insurance contracts. The revised proposals aim to address measurement, presentation and transitional issues identified in the initial exposure draft issued in July 2010 through consultation with the insurance industry and financial statement users. The revised proposals would expand upon the building block measurement model requiring an insurer to measure insurance liabilities using a model focusing on the amount, timing, and uncertainty of future cash flows associated with fulfilling its insurance contracts.

The proposed standard differs significantly from Lifeco's current accounting and actuarial practices under CALM. Current accounting practices closely link the accounting valuations of insurance liabilities and the specific assets used to support those liabilities, thereby minimizing accounting mismatches when liabilities and assets are well-matched economically. The IASB proposals would measure most insurance contract liabilities based on current interest rates, and, under March 2013 proposed amendments to IFRS 9, *Financial Instruments*, investment assets in certain debt securities would also be carried at fair value through other comprehensive income (FVOCI). As a result, changes in the carrying value of both insurance liabilities and investment assets as a result of interest rate changes would be reflected in other comprehensive income rather than in profit or loss. While this proposal would exclude interest rate-related volatility from profit or loss, certain other assets used to support insurance liabilities do not qualify for FVOCI treatment, such as loans and receivables, which would be measured at amortized cost, and other assets such as equity investments, which would be measured at fair value through profit or loss.

The IASB's revised proposals will also affect the calculation of insurance contract liabilities, as well as change the presentation of insurance contract revenue being recognized during the period and disclosure within the financial statements.

On October 25, 2013, Lifeco submitted a comment letter responding to the IASB exposure draft raising concerns that users of the financial statements will not obtain the faithful representation of the financial results of an insurer. The exposure draft is expected to produce more volatile financial results that, in Lifeco's opinion, do not reflect how insurance contracts truly affect an entity's financial position, financial performance and cash flows. The Accounting Standards Board's (AcSB) November 1, 2013 response to the IASB exposure draft included proposed amendments to reduce the volatility of the financial results of an insurer. The IASB is currently deliberating comments received on the exposure draft.

On January 6, 2014, Lifeco submitted a comment letter responding to the AcSB's Exposure Draft ED/2013/7 on Insurance Contracts which posed the question "*Is the Draft Standard appropriate for Canadian entities?*"

Lifeco continues to actively monitor developments in this area and that it will continue to measure insurance contract liabilities under current accounting and actuarial policies, including CALM, until a new IFRS for insurance contract measurement is issued and effective.

IFRS 9—FINANCIAL INSTRUMENTS 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 FVOCI. 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.

RISK FACTORS

There are certain risks inherent in an investment in the securities of the Corporation and in the activities of the Corporation, including the following and other risks discussed elsewhere in this document, which investors should carefully consider before investing in securities of the Corporation. This description of risks does not include all possible risks, and there may be other risks of which the Corporation is not currently aware.

Power Financial is a holding company that holds substantial interests in the financial services sector through its controlling interest in each of Lifeco and IGM. As a result, investors in Power Financial are subject to the risks affecting its subsidiaries, including those that Power Financial has as the principal shareholder of each of Lifeco and IGM. Pargesa, a holding company, is also subject to risk due to the nature of its activities and also those of its direct subsidiary GBL and indirect subsidiary Imerys. These risks relate to credit, liquidity and market risk as described in Pargesa's consolidated financial statements for the year ended December 31, 2013.

As a holding company, Power Financial's ability to pay interest and other operating expenses and dividends, to meet its obligations and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon receipt of sufficient dividends from its principal subsidiaries and other investments and its ability to raise additional capital. The likelihood that shareholders of Power Financial will receive dividends will be dependent upon the operating performance, profitability, financial position and creditworthiness of the subsidiaries of Power Financial and on their ability to pay dividends to Power Financial. The payment of interest and dividends by certain of these principal subsidiaries to Power Financial is also subject to restrictions set forth in insurance, securities and corporate laws and regulations which require that solvency and capital standards be maintained by such companies.

If required, the ability of Power Financial to arrange additional financing in the future will depend in part upon prevailing market conditions as well as the business performance of Power Financial and its subsidiaries. There can be no assurance that debt or equity financing will be available, or, together with internally generated funds, will be sufficient to meet or satisfy Power Financial's objectives or requirements or, if the foregoing are available to Power Financial, that they will be on terms acceptable to Power Financial. The inability of Power Financial to access sufficient capital on acceptable terms could have a material adverse effect on Power Financial's business, prospects, dividend paying capability and financial condition, and further enhancement opportunities or acquisitions.

The market price for Power Financial's securities may be volatile and subject to fluctuations in response to numerous factors, many of which are beyond Power Financial's control. Economic conditions may adversely affect Power Financial and its subsidiaries, including fluctuations in foreign exchange, inflation and interest rates, as well as monetary policies, business investment and the health of capital markets in Canada, the United States, Europe and Asia. In recent years, financial markets have experienced significant price and volume fluctuations that have affected the market prices of equity securities held by the Corporation and its subsidiaries and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. These factors may cause decreases in asset values that are deemed to be significant or prolonged, which may result in impairment charges. In periods of increased levels of volatility and related market turmoil, Power Financial's subsidiaries' operations could be adversely impacted and the trading price of Power Financial's securities may be adversely affected.

The Corporation from time to time uses derivative financial instruments for purposes of risk management. On October 16, 2013, the Corporation purchased six-month equity put options on the S&P 500 with a notional amount of $3.4 billion for consideration of $21 million as a macro capital hedge against a severe decline in equity markets as a result of political uncertainty regarding the status of the borrowing authority of the United States government (See also the "Derivative Financial Instruments" section below).

OFF-BALANCE SHEET ARRANGEMENTS

GUARANTEES

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

LETTERS OF CREDIT

In the normal course of Lifeco's reinsurance business, its subsidiaries provide letters of credit to other parties or beneficiaries. A beneficiary will typically hold a letter of credit as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from Lifeco's subsidiaries. A letter of credit may be drawn upon demand. If an amount is drawn on a letter of credit by a beneficiary, the bank issuing the letter of credit will make a payment to the beneficiary for the amount drawn, and Lifeco's subsidiaries will become obligated to repay this amount to the bank.

Lifeco has disclosed that, through certain of its operating subsidiaries, it has provided letters of credit to both external and internal parties, which are described in Note 32 to the Corporation's 2013 Consolidated Financial Statements.

CONTINGENT LIABILITIES

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

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

PAYMENTS DUE BY PERIOD	TOTAL	LESS THAN 1 YEAR	1–5 YEARS	MORE THAN 5 YEARS
Long-term debt[1]	7,275	658	966	5,651
Deposits and certificates	187	171	11	5
Obligations to securitization entities	5,572	890	4,649	33
Operating leases[2]	708	155	428	125
Purchase obligations[3]	197	61	103	33
Contractual commitments[4]	466	466	–	–
Total	14,405	2,401	6,157	5,847
Letters of credit[5]				

[1] Please refer to Note 15 to the Corporation's 2013 Consolidated Financial Statements for further information.

[2] Includes office space and equipment used in the normal course of business. Lease payments are charged to operations in the period of use.

[3] Purchase obligations are commitments of Lifeco to acquire goods and services, essentially related to information services.

[4] Represents commitments by Lifeco. These contractual commitments are essentially commitments of investment transactions made in the normal course of operations, in accordance with its policies and guidelines, which are to be disbursed upon fulfilment of certain contract conditions.

[5] Please refer to Note 32 to the Corporation's 2013 Consolidated Financial Statements.

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 Corporation group of companies. In all cases, transactions are at market terms and conditions.

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.

IGM also enters into transactions with subsidiaries of Lifeco. These transactions are in the normal course of operations and include (i) providing certain administrative services, (ii) distributing insurance products and (iii) the sale of residential mortgages to Great-West Life and London Life for $204 million in 2013 ($232 million in 2012).

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.

FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair value of the Corporation's financial assets and financial liabilities. The table distinguishes between those financial instruments recorded at fair value and those recorded at amortized cost. The table also excludes fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. These items include cash and cash equivalents, 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. Fair value represents the amount that would be exchanged in an arm's-length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values represent management's estimates and are generally calculated using market information and 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 (please refer to Note 28 to the Corporation's 2013 Consolidated Financial Statements).

	2013		2012	
AS AT DECEMBER 31	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
FINANCIAL ASSETS				
Financial assets recorded at fair value				
Bonds				
Fair value through profit or loss	70,104	70,104	65,050	65,050
Available for sale	8,370	8,370	7,407	7,407
Mortgages and other loans				
Fair value through profit or loss	324	324	249	249
Shares				
Fair value through profit or loss	7,297	7,297	5,949	5,949
Available for sale	117	117	138	138
Investment properties	4,288	4,288	3,572	3,572
Derivative instruments	654	654	1,060	1,060
Other assets	396	396	285	285
	91,550	91,550	83,710	83,710
Financial assets recorded at amortized cost				
Bonds				
Loans and receivables	11,855	12,672	10,934	12,438
Mortgages and other loans				
Loans and receivables	24,591	25,212	22,548	23,859
Shares				
Available for sale	632	632	674	674
	37,078	38,516	34,156	36,971
Total financial assets	128,628	130,066	117,866	120,681
FINANCIAL LIABILITIES				
Financial liabilities recorded at fair value				
Investment contract liabilities	(889)	(889)	(739)	(739)
Derivative instruments	(779)	(779)	(413)	(413)
Other liabilities	(20)	(20)	(141)	(141)
	(1,688)	(1,688)	(1,293)	(1,293)
Financial liabilities recorded at amortized cost				
Obligation to securitization entities	(5,572)	(5,671)	(4,701)	(4,787)
Debentures and debt instruments	(7,275)	(8,066)	(5,817)	(6,779)
Capital trust debentures	(163)	(205)	(164)	(216)
Deposits and certificates	(187)	(188)	(163)	(165)
	(13,197)	(14,130)	(10,845)	(11,947)
Total financial liabilities	(14,885)	(15,818)	(12,138)	(13,240)

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

The Corporation and its subsidiaries have policies, guidelines or procedures relating to the identification, measurement, monitoring, mitigating and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity price risk).

There were no major changes to the Corporation's and its subsidiaries' policies and procedures with respect to the use of derivative instruments in the twelve-month period ended December 31, 2013. There has been an increase in the notional amount outstanding ($28,559 million at December 31, 2013, compared with $17,178 million at December 31, 2012) and a decrease in the exposure to credit risk ($654 million at December 31, 2013, compared with $1,060 million at December 31, 2012) that represents the market value of those instruments, which are in a gain position. See Note 27 to the Corporation's 2013 Consolidated Financial Statements for more information on the type of derivative financial instruments used by the Corporation and its subsidiaries.

On October 16, 2013, Lifeco purchased six-month equity put options on the S&P 500 with a notional amount of $6.8 billion for consideration of $41 million as a macro capital hedge against a severe decline in equity markets as a result of political uncertainty regarding the status of the borrowing authority of the United States government. On October 16, 2013, the Corporation also purchased similar six-month equity put options on the S&P 500 with a notional amount of $3.4 billion for consideration of $21 million.

DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluations as of December 31, 2013, and subject to the limitation described under the "Lifeco's Limitation on Disclosure Controls and Procedures & Internal Control over Financial Reporting" section below, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as at December 31, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Corporation's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Corporation's internal control over financial reporting as at December 31, 2013, based on the Internal Control – Integrated Framework (COSO Framework) published in 1992 by The Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation and subject to the limitation described under the "Lifeco's Limitation on Disclosure Controls and Procedures & Internal Control over Financial Reporting" section below, the Chief Executive Officer and the Chief Financial Officer have concluded that the Corporation's internal control over financial reporting was effective as at December 31, 2013.

In 2013, there have been no changes in the Corporation's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

LIFECO'S LIMITATION ON DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROL OVER FINANCIAL REPORTING

Lifeco's management, as permitted by securities legislation, for the period ended December 31, 2013, has limited the scope of its design of Lifeco's disclosure controls and procedures and Lifeco's internal control over financial reporting to exclude controls, policies and procedures of Irish Life, which Lifeco acquired on July 18, 2013.

Since the date of acquisition to December 31, 2013, Irish Life had revenue of $526 million and net earnings of $85 million (excluding $11 million of restructuring costs incurred by Irish Life). At December 31, 2013 Irish Life's total assets were $48.4 billion, including investments on account of segregated fund policyholders of $38.2 billion. Total liabilities for Irish Life were $46.3 billion, including $38.2 billion of investment and insurance contracts on account of segregated fund policyholders.

RECENT DEVELOPMENTS

On February 3, 2014, the Court of Appeal for Ontario released a decision in regard to the involvement of the participating accounts of Lifeco subsidiaries London Life and Great-West Life in the financing of the acquisition of London Insurance Group Inc. in 1997. This decision overturned the Ontario Superior Court's January 24, 2013 decision regarding the amounts to be reallocated to the participating account surplus. The Court of Appeal reduced the previously ordered amount of $285 million to $52 million ($27 million in respect of London Life and $25 million in respect of Great-West Life). During the subsequent event period, in response to the Court of Appeal's decision, Lifeco recorded, in the fourth quarter of 2013, the recovery which positively impacted net earnings attributable to common shareholders of Lifeco by $226 million, after tax. Power Financial's share of this amount was $156 million.

SELECTED ANNUAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31	2013	2012	2011[1]
Total revenue[2]	28,830	32,934	32,433
Operating earnings attributable to common shareholders[3, 4]	1,708	1,678	1,729
per share – basic	2.40	2.37	2.44
Net earnings attributable to common shareholders[3]	1,896	1,618	1,722
per share – basic	2.67	2.29	2.43
per share – diluted	2.63	2.27	2.41
Earnings from continuing operations attributable to common shareholders	1,896	1,618	1,684
per share – basic	2.67	2.29	2.38
per share – diluted	2.63	2.27	2.36
Consolidated assets[2, 3]	341,711	268,586	252,678
Total financial liabilities[2, 3]	14,885	12,138	15,184
Debentures and debt instruments	7,275	5,817	5,888
Shareholders' equity	16,113	13,563	13,521
Book value per share	18.78	15.95	16.26
Number of common shares outstanding [millions]	711.2	709.1	708.2
Dividends per share [declared]			
Common shares	1.4000	1.4000	1.4000
First preferred shares			
Series A	0.5250	0.5250	0.5250
Series D	1.3750	1.3750	1.3750
Series E	1.3125	1.3125	1.3125
Series F	1.4750	1.4750	1.4750
Series H	1.4375	1.4375	1.4375
Series I	1.5000	1.5000	1.5000
Series K	1.2375	1.2375	1.2375
Series L	1.2750	1.2750	1.2750
Series M[5]	1.5000	1.5000	1.5000
Series O	1.4500	1.4500	1.4500
Series P	1.1000	1.1000	1.1000
Series R[6]	1.3750	1.2837	
Series S[7]	1.1006		
Series T[8]			

[1] The 2011 figures have not been adjusted to reflect current period reclassifications and new and revised IFRS adopted on January 1, 2013. The 2011 figures also include revenues from discontinued operations.

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

[3] The 2012 figures, where impacted, have been restated for the retroactive impact of new and revised IFRS during 2013, most notably IAS 19R, *Employee Benefits* and IFRS 10, *Consolidated Financial Statements*.The 2011 figures also include earnings from discontinued operations of $38 million ($0.05 per share).

[4] Operating earnings and operating earnings per share are non-IFRS financial measures.

[5] Redeemed on January 31, 2014.

[6] Issued in February 2012.

[7] Issued in February 2013. The first payment of dividend was made on April 30, 2013 in the amount of $0.2006 per share. Regular annual dividend is $1.2000 per share.

[8] Issued in December 2013. The first payment of dividend will be made on April 30, 2014 in the amount of $0.4027 per share. Regular annual dividend is $1.0500 per share.