GREAT-WEST
LIFECO INC.

Management's Discussion and Analysis

For the year 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED DECEMBER 31, 2013

DATED: FEBRUARY 13, 2014

This Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three months and twelve months ended December 31, 2013 and includes a comparison to the corresponding periods in 2012, to the three months ended September 30, 2013, and to the Company's financial condition as at December 31, 2012. This MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's three major reportable segments: Canada, United States (U.S.) and Europe.

BUSINESSES OF LIFECO

Lifeco has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (Great-West Financial), Putnam Investments, LLC (Putnam) and Irish Life Group Limited (Irish Life).

In Canada, Great-West Life and its operating subsidiaries, London Life and Canada Life (owned through holding companies London Insurance Group Inc. (LIG) and Canada Life Financial Corporation (CLFC) respectively), offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of Freedom 55 Financial™ and Great-West Life financial security advisors, and through a multi-channel network of brokers, advisors, managing general agencies and financial institutions.

In the U.S., Great-West Financial is a leading provider of employer-sponsored retirement savings plans in the public/non-profit and corporate sectors. It also provides annuity and life insurance products for individuals and businesses, individual retirement accounts as well as fund management, investment and advisory services. Its products and services are marketed nationwide through its sales force, brokers, consultants, advisors, third-party administrators and financial institutions. Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors.

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

In Asia, Putnam has a 10% interest in Nissay Asset Management (NAM), a partnership with Nippon Life Insurance Company. Putnam predominantly acts as a sub-advisor for certain retail mutual funds distributed by NAM and also manages pension fund assets for NAM clients.

Lifeco currently has no other holdings and currently carries on no business or activities unrelated to its holdings in Great-West Life, London Life, Canada Life, Great-West Financial, Putnam and their subsidiaries. However, Lifeco is not restricted to investing in those companies and may make other investments in the future.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted and are presented in millions of Canadian dollars unless otherwise indicated. This MD&A should be read in conjunction with the Company's consolidated financial statements for the period ended December 31, 2013.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains some forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” and similar expressions or negative versions thereof. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future actions by the Company, including statements made with respect to the expected benefits of acquisitions and divestitures, are also forward-looking statements. Forward-looking statements are based on expectations and projections about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements. Material factors and assumptions that were applied in formulating the forward-looking information contained herein include the assumption that the business and economic conditions affecting the Company’s operations will continue substantially in their current state, including, without limitation, with respect to market prices for products provided, sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, taxes, inflation, information systems, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, and the Company's ability to complete strategic transactions and integrate acquisitions, and that there will be no unplanned material changes to the Company’s facilities, customer and employee relations or credit arrangements. Many of these assumptions are based on factors and events that are not within the control of the Company and there is no assurance that they will prove to be correct. Other important factors that could cause actual results to differ materially from those contained in forward-looking statements include technological change, changes in local and international laws and regulations, changes in accounting policies and the effect of applying future accounting policy changes, unexpected judicial or regulatory proceedings and catastrophic events. The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in other filings with securities regulators, including factors set out in this MD&A under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates", which, along with other filings, is available for review at www.sedar.com. The reader is also cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company does not intend to update any forward-looking statements whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-IFRS FINANCIAL MEASURES

This MD&A contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, “operating earnings”, “constant currency basis”, “premiums and deposits”, “sales”, and other similar expressions. Non-IFRS financial measures are used to provide management and investors with additional measures of performance. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and are not directly comparable to similar measures used by other companies. Please refer to the appropriate reconciliation's of these non-IFRS financial measures to measures prescribed by IFRS.

CONSOLIDATED OPERATING RESULTS

Selected consolidated financial information (in Canadian $ millions, except for per share amounts)	As at or for the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012[3]	**Dec. 31 2013**	Dec. 31 2012[3]
Premiums and deposits:					
Life insurance, guaranteed annuities and insured health products[2]	**$ 5,850**	$ 4,859	$ 4,972	**$ 20,236**	$ 19,257
Self-funded premium equivalents (ASO contracts)	**649**	620	677	**2,567**	2,666
Segregated funds deposits:					
Individual products	**2,757**	2,352	2,072	**8,308**	6,557
Group products	**1,809**	1,838	2,216	**7,553**	7,262
Proprietary mutual funds & institutional deposits	**11,491**	10,309	6,880	**36,119**	24,496
Total premiums and deposits	**22,556**	19,978	16,817	**74,783**	60,238
Fee and other income[2]	**1,001**	955	787	**3,585**	3,030
Paid or credited to policyholders[1][2]	**5,647**	5,025	5,262	**17,811**	22,875
Operating earnings - common shareholders[3]	**491**	523	491	**2,052**	1,946
Net earnings - common shareholders[3][5]	**717**	523	351	**2,278**	1,806
Per common share					
Operating earnings	**$ 0.491**	$ 0.527	$ 0.517	**$ 2.108**	$ 2.049
Basic earnings[3]	**0.717**	0.527	0.370	**2.340**	1.902
Dividends paid	**0.3075**	0.3075	0.3075	**1.230**	1.230
Book value[3]	**15.33**	14.39	12.64		
Return on common shareholders' equity[4]					
Operating earnings[3]	**15.0 %**	16.0 %	16.5 %		
Net earnings[3]	**16.6 %**	14.9 %	15.3 %		
Total assets[3]	**$ 325,905**	$ 312,473	$ 253,850		
Proprietary mutual funds and institutional net assets[2]	**185,243**	167,619	134,598		
Total assets under management[3]	**511,148**	480,092	388,448		
Other assets under administration	**247,139**	225,187	157,455		
Total assets under administration[3]	**$ 758,287**	$ 705,279	$ 545,903		
Total equity[3]	**$ 19,999**	$ 19,435	$ 17,011		

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

(1) Paid or credited to policyholders include the impact of changes in fair values of assets supporting insurance and investment contract liabilities.

(2) During the year, the Company reclassified comparative figures for presentation adjustments.

(3) Comparative figures, where impacted, have been restated for the retrospective impact of new and revised IFRS effective during 2013 most notably IAS 19R, *Employee Benefits* and IFRS 10, *Consolidated Financial Statements*.

(4) Return on shareholders equity detailed within the "Capital Management Methodology" section.

(5) Impacts on Lifeco net earnings - common shareholders:

	Three months ended Dec. 31, 2013	Per common share	Twelve months ended Dec. 31, 2013	Per common share
Net earnings	717	0.717	2,278	2.340
Less: Litigation recovery	(226)		(226)	
Operating earnings	$ 491	$ 0.491	$ 2,052	$ 2.108
Add: Irish Life restructuring and acquisition costs	23		97	
Add: Macro capital hedge impact	26		26	
Sub Total	540	0.540	2,175	2.234
Less: Irish Life earnings	(44)		(85)	
Operating earnings excluding Irish Life and macro capital hedge impacts	$ 496	$ 0.496	$ 2,090	$ 2.146

LIFECO 2013 HIGHLIGHTS

Irish Life Group Limited Acquisition

On February 19, 2013, Lifeco announced the acquisition of Irish Life Group Limited (Irish Life) for €1.3 billion. Funding for the transaction included the net proceeds of the issuance of approximately $1.25 billion subscription receipts completed on March 12, 2013. In addition, on April 18, 2013, the Company issued €500 million of 10-year bonds denominated in euros with an annual coupon of 2.50%. The bonds are rated A+ by Standard & Poor's Ratings Services and are listed on the Irish Stock Exchange. The issuance of euro-denominated debt results in a natural hedge of a portion of the Company's net investment in euro-denominated foreign operations.

On July 18, 2013, the Company, through its wholly-owned subsidiary Canada Life Limited, completed the €1.3 billion acquisition of Irish Life. On completion of the acquisition on July 18, 2013, the 48,660,000 subscription receipts were automatically exchanged on a one-for-one basis for common shares of the Company.

In the fourth quarter of 2013, Irish Life contributed $44 million excluding restructuring costs to Lifeco's earnings, and $85 million year-to-date. Included in Lifeco's earnings for the quarter are restructuring and acquisition costs associated with the Irish Life acquisition of $23 million ($97 million year-to-date).

On a year-to-date basis, Lifeco achieved €14.6 million of annualized cost synergies that resulted in pre-tax €5.6 million lower Irish operating expenses since acquisition. Integration activities are proceeding as expected with the annual reduction of operating costs of €40 million to be fully reflected by the end of 2015. These synergies are expected to be achieved through efficiencies related to computer systems, combining the life and pensions operations of Canada Life (Ireland) with the operations of Irish Life (retaining the Irish Life brand name) and other operating efficiencies.

Under IFRS business combination standards, the purchase price of €1.3 billion is allocated to all assets and liabilities of Irish Life primarily based on their fair values at the acquisition date of July 18, 2013. The amount of the purchase consideration in excess of the fair value of the assets and liabilities is allocated to goodwill. As at December 31, 2013, the valuation of assets acquired and liabilities assumed is substantially complete which includes updates to September 30, 2013 provisional amounts for insurance contract liabilities, contingent liabilities and other provisions as well as the identification and valuation of intangible assets. Intangible assets include $131 million of brand value which have an indefinite life and $116 million in customer relationships which will be amortized over a finite life. As a result, the excess of the purchase price over the fair value of net assets acquired of $378 million has been allocated to goodwill. Refer to note 4 in the Company's annual consolidated financial statements for further detail on the Irish Life acquisition.

Revised International Financial Reporting Standards

Effective January 1, 2013, the Company adopted several new and revised IFRS as discussed in the Accounting Policies section of this document. Other than IAS 19R, *Employee Benefits,* the new standards related primarily to enhanced disclosures and had no impact on the net earnings or equity of the Company. In accordance with the transitional requirements of IAS 19R, this change has been applied retrospectively which resulted in a decrease to opening equity at January 1, 2012 of $392 million (decrease of $352 million to shareholders' equity and $40 million to participating account surplus) with an additional decrease to opening equity at January 1, 2013 of $183 million (decrease of $169 million to shareholders' equity and $14 million to participating account surplus). Net earnings for the three and twelve month periods ended December 31, 2012 decreased by $2 million and $9 million respectively, as a result of the adoption of IAS 19R. Prior period figures throughout this document have been restated to reflect the retrospective adoption of these standards.

Subsequent Event
On February 3, 2014, the Court of Appeal for Ontario released a decision in regard to the involvement of the participating accounts of Great-West Lifeco subsidiaries London Life Insurance Company and The Great-West Life Assurance Company in the financing of the acquisition of London Insurance Group 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 $284.6 million to $51.6 million ($27.0 million in respect of London Life and $24.6 million in respect of Great-West Life). During the subsequent event period, in response to the Appeal Decision, the Company recorded the recovery which positively impacted common shareholders net earnings by $226 million after-tax.

Refer to note 33 to the Company's annual consolidated financial statements for a full description.

NET EARNINGS

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

Lifeco's net earnings attributable to common shareholders for the three month period ended December 31, 2013 were $717 million compared to $351 million a year ago and $523 million in the previous quarter. On a per share basis this represents $0.717 per common share ($0.716 diluted) for the fourth quarter of 2013, $0.370 per common share ($0.369 diluted) a year ago and $0.527 per common share ($0.522 diluted) in the previous quarter. Fourth quarter 2013 net earnings includes a litigation recovery recorded in the subsequent event period, which increased net earnings by $226 million. Fourth quarter 2012 net earnings included the impact of litigation provision adjustments, relating to the same legal matter, which negatively impacted net earnings by $140 million after-tax.

For the twelve months ended December 31, 2013, Lifeco's net earnings attributable to common shareholders were $2,278 million compared to $1,806 million a year ago. On a per share basis, this represents $2.340 per common share ($2.297 diluted) for 2013 compared to $1.902 per common share ($1.891 diluted) a year ago.

OPERATING EARNINGS *(A NON-IFRS FINANCIAL MEASURE)*

Lifeco's operating earnings attributable to common shareholders, which exclude the impact of legal recoveries in the amount of $226 million, were $491 million or $0.491 per common share ($0.490 diluted) for the three month period ended December 31, 2013.

Included in operating earnings for the fourth quarter of 2013 are restructuring and acquisition costs associated with the Irish Life acquisition of $23 million and mark-to-market losses of $26 million related to a macro capital hedge. Operating earnings for the quarter excluding these costs were $540 million compared to operating earnings for the fourth quarter of 2012 of $491 million and $583 million in the previous quarter. On a per share basis, this represents $0.540 per common share ($0.539 diluted) compared to $0.517 per common share ($0.514 diluted) a year ago and $0.588 per common share ($0.582 diluted) in the previous quarter.

In the fourth quarter of 2013, net earnings of Irish Life excluding restructuring costs were $44 million compared to $41 million in the third quarter of 2013. Excluding the impacts of the Irish Life acquisition and a macro capital hedge, Lifeco's operating earnings were $496 million in the quarter compared to $491 million a year ago and $542 million in the previous quarter.

Lifeco's operating earnings attributable to the common shareholders for the twelve months ended December 31, 2013 were $2,052 million or $2.108 per common share ($2.070 diluted).

Included in operating earnings on a year-to-date basis for 2013 are restructuring and acquisition costs associated with the Irish Life acquisition of $97 million and mark-to-market losses of $26 million related to a macro capital hedge. Lifeco's operating earnings for the twelve month period excluding these costs were $2,175 million compared to $1,946 million a year ago. On a per share basis this represents $2.234 per common share ($2.194 diluted) compared to $2.049 per common share ($2.037 diluted) a year ago.

Year-to-date, net earnings of Irish Life excluding restructuring costs were $85 million. Excluding the impacts of the Irish Life acquisition and a macro capital hedge, Lifeco's operating earnings were $2,090 million for the twelve months ended December 31, 2013 compared to $1,946 million a year ago.

Net earnings - common shareholders	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Canada					
Individual Insurance	**$ 73**	$ 102	$ 11	**$ 302**	$ 187
Wealth Management	**93**	114	69	**387**	299
Group Insurance	**97**	115	136	**425**	439
Canada Corporate	**7**	1	47	**34**	113
	270	332	263	**1,148**	1,038
United States					
Financial Services	**81**	86	95	**339**	361
Asset Management	**(25)**	(10)	(19)	**(63)**	(40)
U.S. Corporate	**-**	-	-	**-**	-
	56	76	76	**276**	321
Europe					
Insurance & Annuities	**166**	134	91	**548**	407
Reinsurance	**63**	57	64	**245**	215
Europe Corporate	**(27)**	(62)	(4)	**(92)**	(7)
	202	129	151	**701**	615
Lifeco Corporate	**(37)**	(14)	1	**(73)**	(28)
Operating Earnings	**$ 491**	$ 523	$ 491	**$ 2,052**	$ 1,946
Certain litigation provisions[1]	**226**	-	(140)	**226**	(140)
Net earnings	**$ 717**	$ 523	$ 351	**$ 2,278**	$ 1,806

(1) Certain litigation provisions as disclosed in note 33 of the Company's annual consolidated financial statements.

The information in the table is a summary of results for net earnings of the Company. Additional commentary regarding net earnings is included in the Segmented Operating Results.

MARKET IMPACTS

Interest Rate Environment

Interest rates in countries where the Company operates continued to trend higher during 2013 driven by improved economic outlook. The change in interest rates during 2013 resulted in movements in required capital that contributed +7 points on the Great-West Life Minimum Continuing Capital and Surplus (MCCSR) ratio and +9 points on the Canada Life MCCSR ratio. The change in interest rates during 2013 had no material impact on net earnings relative to the Company's expectations.

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

Equity Markets

Equity markets' performance in 2013 was strong in all geographies where the Company operates. The major equity indices finished the fourth quarter up 6.5% in Canada (as measured by S&P TSX), up 9.9% in the U.S. (as measured by S&P 500), up 4.4% in the U.K. (as measured by FTSE 100), and up 24.0% in broader Europe (as measured by Eurostoxx 50) compared to September 30, 2013.

Comparing 2013 to 2012, the average equity market levels were up by 5.4% in Canada, by 19.1% in the U.S., by 12.8% in the U.K., and by 15.7% in broader Europe.

In the fourth quarter of 2013, strong market performance led to increased asset based fee income and reduced costs of guarantees of death, maturity, or income benefits within certain wealth management products offered by the Company. The benefit to net earnings was $15 million ($39 million year-to-date) relative to the Company's expectations.

Foreign Currency

During 2013, the average currency translation rates of the U.S. dollar, British pound and euro increased. The overall impact of currency movement on the Company's net earnings for the three month period ended December 31, 2013 was an increase of $16 million ($24 million year-to-date). The decline in the Canadian dollar at December 31, 2013 against the U.S. dollar, British pound and the euro, resulted in unrealized foreign exchange gains from the translation of foreign operations net of related hedging activities of $450 million ($806 million year-to-date) recorded in other comprehensive income during the quarter.

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

Credit Markets

Credit markets impact on common shareholders' net earnings (after-tax)

	For the three months ended December 31, 2013			For the twelve months ended December 31, 2013		
	Impairment (charges)/ recoveries	Changes in future credit losses in insurance contract liabilities	Total	Impairment (charges)/ recoveries	Changes in future credit losses in insurance contract liabilities	Total
Canada	$ -	$ (1)	$ (1)	$ -	$ (1)	$ (1)
United States	3	-	3	8	(1)	7
Europe	5	10	15	3	4	7
Total	**$ 8**	**$ 9**	**$ 17**	**$ 11**	**$ 2**	**$ 13**

In the fourth quarter of 2013, the Company experienced net recoveries on impaired investments which positively impacted common shareholders' net earnings by $8 million ($5 million net charge in 2012). There were no new impairments in the fourth quarter. Changes in credit ratings in the Company's bond portfolio resulted in a net decrease in provisions for future credit losses in insurance contract liabilities, which positively impacted common shareholders' net earnings by $9 million in the quarter ($32 million net charge in 2012).

For the twelve months ended December 31, 2013, the Company experienced net recoveries on impaired investments, including dispositions, which positively impacted common shareholders' net earnings by $11 million ($27 million net recovery in 2012). Changes in credit ratings in the Company's bond portfolio resulted in a net decrease in provisions for future credit losses in insurance contract liabilities, which positively impacted common shareholders' net earnings by $2 million year-to-date ($47 million net charge in 2012).

PREMIUMS AND DEPOSITS AND SALES

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

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

Premiums and deposits

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Canada					
Individual Insurance	**$ 1,112**	$ 1,035	$ 1,037	**$ 4,177**	$ 3,926
Wealth Management	**2,368**	2,191	2,869	**9,619**	9,382
Group Insurance	**1,886**	1,852	1,880	**7,503**	7,453
	5,366	5,078	5,786	**21,299**	20,761
United States					
Financial Services	**1,755**	1,710	1,712	**6,311**	6,234
Asset Management	**8,668**	8,679	6,683	**31,279**	23,784
	10,423	10,389	8,395	**37,590**	30,018
Europe					
Insurance & Annuities	**5,229**	3,775	1,567	**11,521**	5,021
Reinsurance[1]	**1,538**	736	1,069	**4,373**	4,438
	6,767	4,511	2,636	**15,894**	9,459
Total	**$ 22,556**	$ 19,978	$ 16,817	**$ 74,783**	$ 60,238

Sales

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Canada[2]	**$ 2,852**	$ 2,389	$ 2,917	**$ 10,800**	$ 9,870
United States[2]	**14,263**	10,973	9,359	**44,212**	32,788
Europe - Insurance & Annuities	**4,773**	3,299	1,289	**9,922**	3,738
Total	**$ 21,888**	$ 16,661	$ 13,565	**$ 64,934**	$ 46,396

(1) During the year, the Company reclassified comparative figures for presentation adjustments.
(2) Sales (a non-IFRS measure) results in 2012, have been restated to conform with changes in methodology implemented in 2013 which improve consistency across our platforms and with industry standards for sales measurement.

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

NET INVESTMENT INCOME

Net investment income

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Investment income earned (net of investment properties expenses)[1][2]	**$ 1,400**	$ 1,423	$ 1,335	**$ 5,548**	$ 5,545
Allowances for credit losses on loans and receivables	**4**	(4)	(6)	**(2)**	9
Net realized gains	**40**	17	29	**134**	163
Regular investment income	**1,444**	1,436	1,358	**5,680**	5,717
Investment expenses	**(14)**	(25)	(19)	**(76)**	(75)
Regular net investment income	**1,430**	1,411	1,339	**5,604**	5,642
Changes in fair value through profit or loss[1]	**(225)**	(19)	207	**(2,979)**	2,668
Net investment income	**$ 1,205**	$ 1,392	$ 1,546	**$ 2,625**	$ 8,310

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

Net investment income in the fourth quarter of 2013, which includes changes in fair value through profit or loss, decreased by $341 million compared to the same period last year. The change in fair values in the fourth quarter of 2013 was a decrease of $225 million compared to an increase of $207 million for the fourth quarter of 2012. Declines in bond fair values due to rising government bond yields were partially offset by rising equity markets in the fourth quarter of 2013. In the fourth quarter of 2012, the Company's bond values increased reflecting a decline in government bond yields and the fair value of stocks increased due to rising equity markets.

Regular net investment income in the fourth quarter of 2013, which excludes changes in fair value through profit or loss, increased by $91 million compared to the fourth quarter of 2012. Irish Life contributed $38 million to regular net investment income in the fourth quarter of 2013. Excluding the impact of Irish Life, regular net investment income increased $53 million mostly as a result of a strengthening of the U.S. dollar, British pound and euro against the Canadian dollar, higher net realized gains and net recoveries of allowances on loans and receivables in the current quarter. Net realized gains include gains on available-for-sale securities of $8 million in the fourth quarter of 2013 compared to $20 million for the same period last year.

For the twelve months ended December 31, 2013, net investment income decreased by $5,685 million compared to the same period last year. The change in fair values for the twelve month period in 2013 was a decrease of $2,979 million compared to an increase in fair values of $2,668 million during the same period in 2012, primarily as a result of government bond yields increasing in 2013 but decreasing in 2012. Regular net investment income for the twelve months ended December 31, 2013 decreased by $38 million compared to the same period last year. Irish Life contributed $59 million to regular net investment income in 2013. Excluding the impact of Irish Life, regular net investment income decreased $97 million mostly as a result of lower fixed income yields and lower net realized gains. Net realized gains include gains on available-for-sale securities of $66 million in 2013 compared to $126 million in 2012.

Net investment income in the fourth quarter of 2013 was $187 million lower than the third quarter of 2013, primarily due to net decreases in fair values of $225 million in the fourth quarter of 2013 compared to net decreases of $19 million in the previous quarter. In the fourth quarter of 2013, government bond yields increased more than in the third quarter resulting in greater declines in bond fair values in the fourth quarter.

Fee and Other Income

In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products are segregated funds and mutual funds, for which the Company earns investment management fees on assets managed and other fees, as well as ASO contracts, under which the Company provides group benefit plan administration on a cost-plus basis.

Fee and other income

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013[1]	Dec. 31 2012[1]	**Dec. 31 2013**	Dec. 31 2012[1]
Canada					
Segregated funds, mutual funds and other	**$ 295**	$ 285	$ 265	**$ 1,130**	$ 1,029
ASO contracts	**35**	36	37	**146**	149
	330	321	302	**1,276**	1,178
United States					
Segregated funds, mutual funds and other	**395**	365	319	**1,446**	1,247
Europe					
Segregated funds, mutual funds and other	**276**	269	166	**863**	605
Total fee and other income	**$ 1,001**	$ 955	$ 787	**$ 3,585**	$ 3,030

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

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

Paid or Credited to Policyholders

Paid or credited to policyholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Canada	**$ 2,629**	$ 2,207	$ 2,171	**$ 8,345**	$ 9,770
United States	**927**	1,014	1,163	**3,067**	4,437
Europe[1]	**2,091**	1,804	1,928	**6,399**	8,668
Total	**$ 5,647**	$ 5,025	$ 5,262	**$ 17,811**	$ 22,875

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

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

For the three months ended December 31, 2013, consolidated amounts paid or credited to policyholders were $5.6 billion, including $4.6 billion of policyholder benefit payments and a $1.0 billion increase in contract liabilities. The increase of $385 million from the same period in 2012 consisted of a $276 million contract liability increase, largely driven by fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe and a $109 million increase in benefit payments. The increase in benefit payments reflects normal growth in most areas enhanced by favourable business growth in reinsurance in-quarter, partially offset by the commutation of a health reinsurance treaty.

For the twelve months ended December 31, 2013, consolidated amounts paid or credited to policyholders were $17.8 billion, including $18.1 billion of policyholder benefit payments and a $0.3 billion decrease in contract liabilities. The decrease of $5.1 billion from the same period in 2012 consisted of a $5.3 billion contract liability decrease, largely driven by fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe and a $257 million increase in benefit payments. The increase in benefit payments reflects normal growth in year, partially offset by the commutation of a health reinsurance treaty.

Compared to the previous quarter, consolidated amounts paid or credited to policyholders increased by $622 million. The increase consisted of a $367 million contract liability increase and a $255 million increase in benefit payments. The increase reflects normal growth in most areas enhanced by favourable business growth in reinsurance in-quarter, partially offset by fair value adjustments to insurance contract liabilities as a result of changes in interest rates in Canada, the U.S. and Europe.

OTHER BENEFITS AND EXPENSES

Other benefits and expenses

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Commissions	**$ 531**	$ 463	$ 515	**$ 1,869**	$ 1,781
Operating and administrative expenses[1]	**929**	814	670	**3,159**	2,684
Premium taxes	**83**	84	75	**313**	293
Financing charges[2]	**76**	75	74	**292**	299
Amortization of finite life intangible assets	**33**	28	24	**117**	103
Restructuring and acquisition expenses	**$ 27**	$ 63	$ -	**$ 104**	$ -
Total	**$ 1,679**	$ 1,527	$ 1,358	**$ 5,854**	$ 5,160

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

Other benefits and expenses for the fourth quarter of 2013 increased by $321 million to $1,679 million compared to the same period last year primarily due to increased operating and administrative expenses and restructuring and acquisition expenses related to the acquisition of Irish Life and increased incentive compensation and fair-value adjustments on share-based compensation in Putnam. As well, in the fourth quarter of 2012, provisions for certain Canadian retirement plans were released reducing 2012 expenses.

For the twelve months ended December 31, 2013, other benefits and expenses increased by $694 million compared to the same period last year primarily for the same reasons impacting the in-quarter variance. The release of legal provisions in the U.S. segment in 2012, which did not recur in 2013, also contributed to the increase in current year expenses.

Other benefits and expenses for the fourth quarter of 2013 increased by $152 million compared to the previous quarter, primarily due to increased operating and administrative expenses related to Irish Life, increased incentive compensation and fair-value adjustments on share-based compensation in Putnam, and increased commissions in Canada. The decrease in restructuring and acquisition expenses related to Irish Life partly offset these increases.

INCOME TAXES

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

The Company had an effective income tax rate of 18% for the fourth quarter of 2013 compared to 14% in the fourth quarter of 2012. During the fourth quarter of 2012 the Company recorded $18 million of deferred income tax assets related primarily to previously unrecognized tax losses. As a result, the Company's effective income tax rate for the fourth quarter of 2012 was reduced by 3%.

The Company had an effective income tax rate of 17% for the twelve months ended December 31, 2013 compared to 14% for the same period in 2012. During the second quarter of 2012, the Company entered into an audit agreement with the Canada Revenue Agency. The audit agreement resolved several outstanding issues including transfer pricing and other international taxation matters for taxation years 2004 to 2011. The Company held uncertain tax position reserves for these items which, upon release, resulted in a positive earnings impact of $47 million and which reduced the effective income tax rate for the 12 months ended December 31, 2012 by 2%. The above-noted recognition of deferred income tax assets in 2012 ($25 million for the 12 month period) also further reduced the effective income tax rate for 2012 by 1%.

The fourth quarter effective income tax rate of 18% is higher than the third quarter of 2013 rate of 12% due to the reduction in statutory income tax rates in the U.K. from 23% to 20% which was substantively enacted in the third quarter. Also contributing to the lower effective income tax rate in the third quarter of 2013 was the true-up of prior year tax provisions to tax filings.

CONSOLIDATED FINANCIAL POSITION

ASSETS

Assets under administration

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

	December 31, 2012			
	Canada	United States	Europe	Total
Assets				
Invested assets[2]	$ 58,506	$ 28,722	$ 32,828	$ 120,056
Goodwill and intangible assets	5,098	1,721	1,693	8,512
Other assets[1]	3,229	3,051	13,570	19,850
Segregated funds net assets[2]	54,638	23,809	26,985	105,432
Total assets	121,471	57,303	75,076	253,850
Proprietary mutual funds and institutional net assets	3,585	131,013	-	134,598
Total assets under management	125,056	188,316	75,076	388,448
Other assets under administration	13,184	144,164	107	157,455
Total assets under administration	$ 138,240	$ 332,480	$ 75,183	$ 545,903

(1) During the year, the Company reclassified comparative figures for presentation adjustments.
(2) Certain comparative figures have been restated for the retrospective impact of IFRS 10, *Consolidated Financial Statements.*

Total assets under administration at December 31, 2013 increased by $212.4 billion to $758.3 billion compared to December 31, 2012, primarily as a result of the acquisition of Irish Life, positive currency movement and new business growth. Other assets under administration increased by $89.7 billion.

The acquisition of Irish Life resulted in increases in general fund assets, segregated fund net assets, proprietary mutual funds and institutional net assets, and other assets under administration of $10.2 billion, $38.2 billion, $16.6 billion and $39.9 billion, respectively.

INVESTED ASSETS

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. The Company implements strategies within the overall framework of the Company’s policies, reviewing and adjusting them on an ongoing basis in light of liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company’s liabilities.

Invested asset distribution

	December 31, 2013				
	Canada	**United States**	**Europe**	**Total**	
Bonds					
Government & related	**$ 16,621**	**$ 5,964**	**$ 15,053**	**$ 37,638**	**29 %**
Corporate & other	**19,014**	**16,127**	**17,135**	**52,276**	**40**
Sub-total bonds	**35,635**	**22,091**	**32,188**	**89,914**	**69**
Mortgages	**12,135**	**3,556**	**3,372**	**19,063**	**14**
Stocks	**7,540**	**234**	**780**	**8,554**	**6**
Investment properties	**1,513**	**4**	**2,771**	**4,288**	**3**
Sub-total portfolio investments	**56,823**	**25,885**	**39,111**	**121,819**	**92**
Cash and cash equivalents	**413**	**572**	**1,806**	**2,791**	**2**
Loans to policyholders	**2,499**	**4,749**	**84**	**7,332**	**6**
Total invested assets	**$ 59,735**	**$ 31,206**	**$ 41,001**	**$ 131,942**	**100 %**

	December 31, 2012				
	Canada	United States	Europe	Total	
Bonds					
Government & related	$ 16,028	$ 5,655	$ 11,235	$ 32,918	27 %
Corporate & other	19,567	14,952	15,144	49,663	41
Sub-total bonds	35,595	20,607	26,379	82,581	68
Mortgages	11,908	3,060	2,907	17,875	15
Stocks	6,529	279	243	7,051	6
Investment properties	1,315	8	2,249	3,572	3
Sub-total portfolio investments	55,347	23,954	31,778	111,079	92
Cash and cash equivalents	671	250	974	1,895	2
Loans to policyholders	2,488	4,518	76	7,082	6
Total invested assets	$ 58,506	$ 28,722	$ 32,828	$ 120,056	100 %

At December 31, 2013 total invested assets were $131.9 billion, an increase of $11.9 billion from December 31, 2012 including $5.7 billion of Irish Life invested assets. Excluding Irish Life, higher values due to positive currency movement were partly offset by a decrease in bond fair values as a result of higher government bond yields. The distribution of assets has not changed significantly and remains heavily weighted to bonds and mortgages.

Bond portfolio – It is the Company's policy to acquire only investment-grade bonds subject to prudent and well defined investment policies. The total bond portfolio, including short-term investments, was $89.9 billion or 69% of invested assets at December 31, 2013 and $82.6 billion or 68% at December 31, 2012. The acquisition of Irish Life increased bond holdings by $4.5 billion in 2013. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 80% rated A or higher.

Bond portfolio quality

	December 31, 2013		December 31, 2012	
AAA	**$ 30,626**	**34 %**	$ 29,302	35 %
AA	**15,913**	**18**	13,463	16
A	**25,348**	**28**	23,812	29
BBB	**16,809**	**19**	14,662	18
BB or lower	**1,218**	**1**	1,342	2
Total	**$ 89,914**	**100 %**	$ 82,581	100 %

At December 31, 2013 non-investment grade bonds were $1.2 billion or 1.4% of the bond portfolio compared to $1.3 billion or 1.6% of the bond portfolio at December 31, 2012. The net decrease in non-investment grade bonds mainly resulted from ratings upgrades and dispositions.

Holdings of Debt Securities of Governments

	Carrying Value by Rating - December 31, 2013						
	AAA	**AA**	**A**	**BBB**	**BB & Lower**	**Total***	**Amortized Cost***
Canada	$ 9,307	$ 3,033	$ 3,144	$ 70	$ 18	$ 15,572	$ 15,385
U.K.	8,300	1,183	189	528	-	10,200	9,780
U.S.	6,005	1,377	163	3	-	7,548	7,489
Ireland	-	-	-	733	-	733	720
	23,612	**5,593**	**3,496**	**1,334**	**18**	**34,053**	**33,374**
Portugal	-	-	-	-	10	10	10
Italy	-	-	-	83	-	83	83
Greece	-	-	-	-	-	-	-
Spain	-	-	-	11	-	11	13
	-	**-**	**-**	**94**	**10**	**104**	**106**
Germany	1,734	9	-	-	-	1,743	1,762
France	-	1,213	-	-	-	1,213	1,220
Netherlands	572	159	-	-	-	731	725
Austria	390	22	-	-	-	412	422
Australia	93	-	-	-	-	93	94
Supranationals	1,175	128	-	-	-	1,303	1,290
All other (9 countries)	547	293	132	21	-	993	992
	4,511	**1,824**	**132**	**21**	**-**	**6,488**	**6,505**
Total	**$ 28,123**	**$ 7,417**	**$ 3,628**	**$ 1,449**	**$ 28**	**$ 40,645**	**$ 39,985**

* Includes certain funds held by ceding insurers with a carrying value of $3,007 million and an amortized cost of $2,892 million.

At December 31, 2013, the Company held government and government-related debt securities (including certain assets reported as funds held by ceding insurers) with an aggregate carrying value of $40.6 billion up from $37.2 billion at December 31, 2012. The increase includes $3.7 billion of bonds held by Irish Life. Excluding the impact of Irish Life, government bond holdings decreased by $0.3 billion as a decrease in market values driven by increasing government bond yields was mostly offset by a strengthening of the U.S. dollar, British pound and euro against the Canadian dollar and net purchases of government bonds. Government and government related debt securities include investments in Public-Private Partnerships. At December 31, 2013, there was $18 million of these securities rated below investment grade. Included in this portfolio are debt securities issued by Portugal, Italy and Spain, with an aggregate carrying value of $104 million up from $45 million at December 31, 2012 reflecting the acquisition of Irish Life. The Company does not hold any debt securities of the government of Greece.

Holdings of Debt Securities of Banks and Other Financial Institutions

Carrying Value by Rating - December 31, 2013

	AAA	AA	A	BBB	BB & Lower	Total*	Amortized Cost*
Canada	$ 68	$ 502	$ 1,022	$ 177	$ -	$ 1,769	$ 1,721
U.K.	237	486	1,850	1,105	381	4,059	3,884
U.S.	99	1,587	1,889	583	11	4,169	3,909
Ireland	-	-	-	101	10	111	130
	404	**2,575**	**4,761**	**1,966**	**402**	**10,108**	**9,644**
Portugal	-	-	-	-	-	-	-
Italy	-	-	29	81	-	110	112
Greece	-	-	-	-	-	-	-
Spain	68	-	55	106	-	229	230
	68	**-**	**84**	**187**	**-**	**339**	**342**
Germany	5	27	197	2	-	231	225
France	122	104	260	243	-	729	699
Netherlands	16	268	216	45	16	561	541
Australia	130	334	80	85	-	629	616
All other (17 institutions)	67	239	388	98	16	808	780
	340	**972**	**1,141**	**473**	**32**	**2,958**	**2,861**
Total	**$ 812**	**$ 3,547**	**$ 5,986**	**$ 2,626**	**$ 434**	**$ 13,405**	**$ 12,847**

Carrying Value by Seniority - December 31, 2013

	Covered	Senior Debt	Subordinated Debt	Upper Tier Two	Capital Securities	Contingent Capital	Total*	Amortized Cost*
Canada	$ 74	$ 1,210	$ 176	$ 63	$ 246	$ -	$ 1,769	$ 1,721
U.K.	298	1,740	903	524	385	209	4,059	3,884
U.S.	438	2,551	1,009	-	171	-	4,169	3,909
Ireland	63	38	-	-	10	-	111	130
	873	**5,539**	**2,088**	**587**	**812**	**209**	**10,108**	**9,644**
Portugal	-	-	-	-	-	-	-	-
Italy	29	-	-	-	81	-	110	112
Greece	-	-	-	-	-	-	-	-
Spain	81	-	65	38	45	-	229	230
	110	**-**	**65**	**38**	**126**	**-**	**339**	**342**
Germany	44	121	66	-	-	-	231	225
France	208	191	151	50	129	-	729	699
Netherlands	16	436	24	32	53	-	561	541
Australia	141	375	65	-	48	-	629	616
All other (17 institutions)	76	455	110	91	76	-	808	780
	485	**1,578**	**416**	**173**	**306**	**-**	**2,958**	**2,861**
Total	**$ 1,468**	**$ 7,117**	**$ 2,569**	**$ 798**	**$ 1,244**	**$ 209**	**$ 13,405**	**$ 12,847**

* Includes certain funds held by ceding insurers with a carrying value of $2,977 million and an amortized cost of $2,715 million.

At December 31, 2013, the Company held debt securities, including short-term debt securities, issued by banks and other financial institutions (including certain assets reported as funds held by ceding insurers) with an aggregate carrying value of $13.4 billion up from $12.8 billion at December 31, 2012. The increase is primarily a result of the inclusion of Irish Life financial institution bond holdings of $630 million ($367 million long-term; $263 million short-term).

Included in this portfolio is $339 million of debt securities issued by banks and other financial institutions domiciled in Italy and Spain, compared to $342 million at December 31, 2012. Of the Spanish holdings of $229 million, $202 million are Sterling denominated bonds issued by U.K. domiciled Prudential Regulation Authority (PRA) regulated subsidiaries of Spanish financial institutions. The Company does not have any holdings of banks and other financial institutions domiciled in Greece or Portugal.

At December 31, 2013, 97% of the $13.4 billion carrying value of debt securities invested in banks and other financial institutions was rated investment grade.

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

Mortgage portfolio

	December 31, 2013				December 31, 2012	
Mortgage loans by type	**Insured**	**Non-insured**	**Total**		Total	
Single family residential	**$ 913**	**$ 845**	**$ 1,758**	**9 %**	$ 1,676	9 %
Multi-family residential	**2,648**	**2,164**	**4,812**	**25**	4,358	25
Commercial	**205**	**12,288**	**12,493**	**66**	11,841	66
Total	**$ 3,766**	**$ 15,297**	**$ 19,063**	**100 %**	$ 17,875	100 %

The total mortgage portfolio was $19.1 billion or 14% of invested assets at December 31, 2013 compared to $17.9 billion or 15% of invested assets at December 31, 2012. Total insured loans were $3.8 billion or 20% of the mortgage portfolio.

Single family residential mortgage

Region	**December 31, 2013**		December 31, 2012	
Ontario	**$ 826**	**47 %**	$ 757	45 %
Quebec	**392**	**22**	398	24
Alberta	**123**	**7**	122	7
British Columbia	**109**	**6**	109	7
Newfoundland	**93**	**5**	86	5
Nova Scotia	**63**	**4**	63	4
Saskatchewan	**63**	**4**	54	3
Manitoba	**45**	**3**	43	3
New Brunswick	**41**	**2**	40	2
Other	**3**	**-**	4	-
Total	**$ 1,758**	**100 %**	$ 1,676	100 %

During the twelve month period ended December 31, 2013, single-family mortgage originations, including renewals, were $561 million of which 34% were insured. Insured mortgages include mortgages where insurance is provided by a third party and protects the Company in the event that the borrower is unable to fulfill its obligations related to the mortgage. Loans that are insured are subject to the requirements of the mortgage default insurance provider. For new originations of non-insured residential mortgages, the Company's investment policies limit the amortization period to a maximum 25 years and the loan-to-value to a maximum of 80% of the purchase price or current appraised value of the property. The weighted average remaining amortization period for the single-family residential mortgage portfolio is 22 years as at December 31, 2013.

Commercial mortgages	**December 31, 2013**				December 31, 2012			
	Canada	**U.S.**	**Europe**	**Total**	Canada	U.S.	Europe	Total
Retail & shopping centres	**$ 3,422**	**$ 488**	**$ 1,298**	**$ 5,208**	$ 3,239	$ 403	$ 1,247	$ 4,889
Office buildings	**1,365**	**429**	**613**	**2,407**	1,431	272	639	2,342
Industrial	**1,733**	**1,276**	**744**	**3,753**	1,848	1,301	444	3,593
Other	**422**	**311**	**392**	**1,125**	464	163	390	1,017
Total	**$ 6,942**	**$ 2,504**	**$ 3,047**	**$ 12,493**	$ 6,982	$ 2,139	$ 2,720	$ 11,841

Equity portfolio	**December 31, 2013**		December 31, 2012	
Equity portfolio by type				
Publicly traded stocks	**$ 7,678**	**60 %**	$ 6,351	60 %
Privately held equities (at cost)	**876**	**7**	700	7
Sub-total	**8,554**	**67 %**	7,051	67 %
Investment properties	**4,288**	**33**	3,572	33
Total	**$ 12,842**	**100 %**	$ 10,623	100 %

Investment properties	**December 31, 2013**				December 31, 2012			
	Canada	**U.S.**	**Europe**	**Total**	Canada	U.S.	Europe	Total
Office buildings	**$ 748**	**$ -**	**$ 816**	**$ 1,564**	$ 730	$ 1	$ 531	$ 1,262
Industrial	**287**	**-**	**539**	**826**	137	-	480	617
Retail	**203**	**-**	**1,075**	**1,278**	199	2	961	1,162
Other	**275**	**4**	**341**	**620**	248	5	278	531
Total	**$ 1,513**	**$ 4**	**$ 2,771**	**$ 4,288**	$ 1,314	$ 8	$ 2,250	$ 3,572

Equity portfolio – The total equity portfolio was $12.8 billion or 9% of invested assets at December 31, 2013 compared to $10.6 billion or 9% of invested assets at December 31, 2012. The equity portfolio consists of public stocks, private equity and investment properties. Publicly traded stocks increased approximately $1.3 billion in 2013 primarily due to net market value increases and the acquisition of Irish Life which contributed $0.2 billion. Privately held equities carried at cost increased by $0.2 billion due to the acquisition of Irish Life. The increase in investment properties of $0.7 billion is mainly a result of the acquisition of Irish Life which contributed $0.3 billion, net market value increases and the strengthening of the British pound against the Canadian dollar.

Impaired investments – Impaired investments include bonds in default, mortgages in default or in the process of foreclosure, investment properties acquired by foreclosure, and other assets where management no longer has reasonable assurance that all contractual cash flows will be received.

Impaired investments

	December 31, 2013			December 31, 2012		
	Gross amount	**Impairment recovery / (provision)**	**Carrying amount**	Gross amount	Impairment recovery / (provision)	Carrying amount
Impaired investments by type						
Fair value through profit or loss	**$ 355**	**$ 29**	**$ 384**	$ 411	$ (46)	$ 365
Available-for-sale	**21**	**(2)**	**19**	33	(6)	27
Loans and receivables	**59**	**(25)**	**34**	62	(21)	41
Total	**$ 435**	**$ 2**	**$ 437**	$ 506	$ (73)	$ 433

The gross amount of impaired investments totaled $435 million or 0.3% of portfolio investments (including certain assets reported as funds held by ceding insurers) at December 31, 2013 compared with $506 million or 0.4% at December 31, 2012, a net decrease of $71 million. Impaired investments decreased mostly as a result of dispositions and repayments of $110 million which were partly offset by in-year impairments of $9 million and a strengthening of the U.S. dollar and British pound against the Canadian dollar of $30 million.

The impaired amount at December 31, 2013 was a net recovery of $2 million compared to a net provision of $73 million at December 31, 2012. The primary reason for the change was an increase in the fair values of the remaining impaired investments. While the fair values have improved on certain impaired assets, these assets remain impaired based on other impairment factors as described in the Company's significant accounting policies.

Provision for future credit losses

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

At December 31, 2013, the total provision for future credit losses in insurance contract liabilities was $2,795 million compared to $2,559 million at December 31, 2012, an increase of $236 million mostly due to the $70 million impact of the acquisition of Irish Life, currency movement and normal business activity.

The aggregate of impairment provisions, excluding positive mark-to-market of $40 million ($7 million at December 31, 2012), of $38 million ($80 million at December 31, 2012) and $2,795 million ($2,559 million at December 31, 2012) for future credit losses in insurance contract liabilities represents 2.4% of bond and mortgage assets including funds held by ceding insurers at December 31, 2013 (2.4% at December 31, 2012).

DERIVATIVE FINANCIAL INSTRUMENTS

There were no major changes to the Company's policies and procedures with respect to the use of derivative financial instruments in the fourth quarter of 2013. The Company's derivative transactions are generally governed by International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreements which provide for legally enforceable set-off and close-out netting of exposure to specific counterparties in the event of early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from a counterparty against payables to the same counterparty, in the same legal entity, arising out of all included transactions. The Company's ISDA Master Agreements may include Credit Support Annex provisions which require both the pledging and accepting of collateral in connection with its derivative transactions. Total financial collateral, including initial margin and overcollateralization received on derivative assets, was $19 million ($25 million at December 31, 2012) and pledged on derivative liabilities was $222 million ($118 million at December 31, 2012).

During the twelve month period ended December 31, 2013 the outstanding notional amount of derivative contracts increased by $7.6 billion. The increase includes $660 million of derivatives held by Irish Life. Excluding Irish Life, the outstanding notional amount increased $6.9 billion primarily as a result of the purchase of six month equity put options on the S&P 500 related to a macro capital hedge with a notional amount of $7.1 billion at December 31, 2013. Other derivative activity in 2013 includes the expiry of equity put options with a notional amount of $849 million, the addition of foreign exchange forward contracts that fix the euro to the British pound rate on approximately €300 million of the Irish Life investment and regular hedging activity in connection with the Company's asset and liability positions.

On October 16, 2013, the Company 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.

The Company's exposure to derivative counterparty credit risk, which reflects the current fair value of those instruments in a gain position, decreased to $593 million at December 31, 2013 from $997 million at December 31, 2012. Market values decreased on cross currency swaps exchanging U.S. dollars for Canadian dollars for asset liability cash flow matching purposes as the U.S. dollar strengthened against the Canadian dollar. Market values also decreased on interest rate swaps that typically receive fixed rates and pay floating rates due to rising interest rates.

Goodwill and intangible assets

Goodwill and intangible assets	**December 31**	
	2013	2012
Goodwill	**$ 5,812**	$ 5,397
Indefinite life intangible assets	**2,655**	2,442
Finite life intangible assets	**801**	673
Total	**$ 9,268**	$ 8,512

The Company's goodwill and intangible assets relate primarily to its acquisitions of London Life, Canada Life, Putnam and Irish Life. Goodwill and intangible assets have increased by $756 million to $9,268 million at December 31, 2013 compared to December 31, 2012.

Goodwill has increased $415 million to $5,812 million as a result of goodwill of $378 million related to the acquisition of Irish Life and positive currency movement.

Indefinite and finite life intangible assets have increased $341 million primarily due to the acquisition of Irish Life. At acquisition date, Irish Life indefinite life intangible assets were valued at $131 million and finite life intangible assets were valued at $116 million. Positive currency movement also contributed to the increase partly offset by in-period write downs of intangibles.

IFRS principles require the Company to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to perform an impairment test on goodwill and intangibles at least 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 fourth quarter of 2013, the Company conducted its annual impairment testing of goodwill and intangible assets. As a result of the testing, the Company recognized an impairment to intangible assets of $37 million ($32 million after-tax) of which $34 million ($30 million after-tax) related to infinite intangible assets related to the Canada Life brand value in Ireland. This write-down reflects discontinued use of the Canada Life brand as a result of the Irish Life transaction. The impairment charge also included $3 million ($2 million after-tax) related to finite life intangible software assets in the Canadian segment.

Refer to note 12 to the Company's annual consolidated financial statements for further detail of the Company's goodwill and intangible assets. Also refer to the "Summary of Critical Accounting Estimates" section of this document for details on impairment testing of these assets.

Other general fund assets

Other general fund assets	December 31	
	2013	2012
Funds held by ceding insurers[1]	**$ 10,832**	$ 10,599
Reinsurance assets	**5,070**	2,064
Premiums in course of collection, accounts and interest receivable	**3,068**	2,647
Other assets[1]	**2,220**	1,571
Deferred tax assets	**1,167**	1,142
Derivative financial instruments	**593**	997
Owner occupied properties	**590**	514
Fixed assets	**211**	154
Current income taxes	**165**	162
Total	**$ 23,916**	$ 19,850

(1) During the year, the Company reclassified comparative figures for presentation adjustments.

Total other general fund assets at December 31, 2013 were $23.9 billion, an increase of $4.1 billion from December 31, 2012. Excluding the impact of Irish Life of $3.8 billion, of which $3.3 billion related to reinsurance assets, other general fund assets increased by $260 million.

Other assets comprise several items including prepaid amounts and accounts receivable. Refer to note 14 to the Company's annual consolidated financial statements for a breakdown of other assets.

Investments on account of segregated fund policyholders

Segregated funds	**December 31 2013**	December 31 2012	January 1 2012
Stocks and units in unit trusts[1]	**$ 62,882**	$ 35,154	$ 32,651
Mutual funds[1]	**41,555**	34,100	31,234
Bonds	**34,405**	24,070	21,594
Cash and other	**10,454**	3,172	3,343
Investment properties	**8,284**	6,149	5,457
Mortgage loans	**2,427**	2,303	2,303
Sub Total	**$ 160,007**	$ 104,948	$ 96,582
Non-controlling mutual funds interest[1]	**772**	484	403
Total	**$ 160,779**	$ 105,432	$ 96,985
Year-over-year growth	**52 %**	9 %	

(1) Comparative figures have been restated for the retrospective impact of IFRS 10, *Consolidated Financial Statements.*

Investments on account of segregated fund policyholders which are measured at fair value, increased by $55.3 billion to $160.8 billion at December 31, 2013, primarily due to the $36.3 billion impact of amounts acquired in the acquisition of Irish Life. Also contributing to the increase were market value gains and reinvested investment income of $12.9 billion and the impact of currency movement of $7.2 billion, partially offset by net withdrawals of $1.3 billion.

Proprietary mutual funds

Proprietary mutual funds and institutional net assets

	December 31	
	2013	2012
Mutual funds		
Blend equity	**$ 26,808**	$ 16,827
Growth equity	**12,314**	9,380
Equity value	**18,202**	13,518
Fixed income	**28,001**	25,658
Money market	**119**	129
Great-West Financial Funds[1]	**5,986**	3,967
Sub-total	**91,430**	69,479
Institutional accounts		
Equity	**58,414**	36,831
Fixed income	**35,167**	28,288
Other	**232**	-
Sub-total	**93,813**	65,119
Total proprietary mutual funds and institutional accounts	**$ 185,243**	$ 134,598

(1) Excludes $819 million of assets wherein Putnam is the sub-advisor.

At December 31, 2013, total proprietary mutual funds and institutional accounts includes $164.5 billion at Putnam and Great-West Financial, $4.1 billion at Quadrus, and $16.6 billion at Irish Life. Excluding the impact of the acquisition of Irish Life, proprietary mutual funds and institutional accounts under management increased by $34.0 billion, primarily as a result of an increase in market values of $21.8 billion, the positive impact of currency movement of $10.7 billion and net inflows of $1.5 billion.

LIABILITIES

Total liabilities

	Dec. 31 2013	Dec. 31 2012
Insurance and investment contract liabilities[1]	**$ 132,063**	$ 120,712
Other general fund liabilities[1]	**13,064**	10,695
Investment and insurance contracts on account of segregated fund policyholders[2]	**160,779**	105,432
Total	**$ 305,906**	$ 236,839

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

Total liabilities increased by $69.1 billion to $305.9 billion at December 31, 2013 from December 31, 2012, primarily due to the acquisition of Irish Life.

Insurance and investment contract liabilities increased by $11.4 billion, primarily due to the $7.0 billion impact of the acquisition of Irish Life. Investment and insurance contract liabilities on account of segregated fund policyholders increased by $55.3 billion primarily due to the $36.3 billion impact of amounts acquired in the acquisition of Irish Life. Also contributing to the increase, were market value gains and reinvested investment income of $12.9 billion and the impact of currency movement of $7.2 billion, partially offset by net withdrawals of $1.3 billion.

Insurance and investment contract liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, and expenses on policies in-force. Insurance and investment contract liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. Also refer to the "Summary of Critical Accounting Estimates" section of this document for further details.

Assets supporting insurance and investment contract liabilities

	Participating Account	Non-Participating			Total
		Canada	United States	Europe	
December 31, 2013					
Bonds	**$ 17,342**	**$ 16,157**	**$ 15,508**	**$ 27,273**	**$ 76,280**
Mortgage loans	**7,881**	**3,769**	**2,911**	**3,290**	**17,851**
Stocks	**5,066**	**1,796**	**-**	**225**	**7,087**
Investment properties	**1,192**	**3**	**-**	**2,460**	**3,655**
Other assets	**8,210**	**4,173**	**619**	**14,188**	**27,190**
Total assets	**$ 39,691**	**$ 25,898**	**$ 19,038**	**$ 47,436**	**$ 132,063**
Total insurance and investment contract liabilities	**$ 39,691**	**$ 25,898**	**$ 19,038**	**$ 47,436**	**$ 132,063**
December 31, 2012					
Bonds	$ 17,999	$ 17,519	$ 14,280	$ 22,420	$ 72,218
Mortgage loans	7,131	4,428	2,464	2,827	16,850
Stocks	4,336	1,565	-	127	6,028
Investment properties	998	3	-	2,173	3,174
Other assets	7,570	3,768	612	10,492	22,442
Total assets	$ 38,034	$ 27,283	$ 17,356	$ 38,039	$ 120,712
Total insurance and investment contract liabilities	$ 38,034	$ 27,283	$ 17,356	$ 38,039	$ 120,712

Other assets include: premiums in the course of collection, interest due and accrued, other investment receivable, current income taxes, prepaid expenses, accounts receivable and deferred acquisition costs.

Asset and liability cash flows are carefully matched within reasonable limits to minimize the financial effects of a shift in interest rates. This practice has been in effect for many years and has helped shield the Company's financial position from interest rate volatility.

Other general fund liabilities

Other general fund liabilities

	December 31	
	2013	2012[(1)]
Debentures and other debt instruments	**$ 5,740**	$ 4,283
Other liabilities	**2,807**	2,956
Accounts payable	**1,583**	1,258
Current income taxes	**981**	649
Deferred tax liabilities	**776**	708
Derivative financial instruments	**744**	342
Funds held under reinsurance contracts	**270**	335
Capital trust debentures	**163**	164
Total	**$ 13,064**	$ 10,695

(1) During the year, the Company reclassified certain comparative figures for presentation adjustments.

Total other general fund liabilities increased by $2.4 billion to $13.1 billion, primarily due to $0.7 billion of 10-year euro-denominated bonds issued in the second quarter of 2013 and $1.1 billion of Irish Life other general fund liabilities.

Other liabilities include pension and other post-retirement benefits, deferred income reserve, bank overdraft and other liability balances. Refer to note 20 to the Company's annual consolidated financial statements for a breakdown of the balances and to note 18 for details of the debentures and other debt instruments.

Investment Guarantees Associated with Wealth Management Products

The Company offers retail segregated fund products, unitized with profits (UWP) products and variable annuity products that provide for certain guarantees that are tied to the market values of the investment funds.

The Company utilizes internal reinsurance treaties to aggregate the business as a risk-mitigating tool. Aggregation enables the Company to benefit from diversification of segregated fund risks within one legal entity, a more efficient and cost effective hedging process, and better management of the liquidity risk associated with hedging. It also results in the Company holding lower required capital and actuarial liabilities, as aggregation of different risk profiles allows the Company to reflect offsets at a consolidated level.

In Canada, the Company offers retail segregated fund products through Great-West Life, London Life and Canada Life. These products provide guaranteed minimum death benefits (GMDB) and guaranteed minimum accumulation on maturity benefits (GMAB). In 2009, Great-West Life, London Life and Canada Life launched new retail segregated fund products which offer three levels of death and maturity guarantees, guarantee reset riders and lifetime guaranteed minimum withdrawal benefits (GMWB).

For business written prior to June 2012, the guarantees in connection with the Canadian retail segregated fund businesses of Great-West Life, London Life and Canada Life have been reinsured to London Reinsurance Group Inc. (LRG). This does not include the new Canadian products launched in 2009, which have been reinsured to London Life. In addition to the guarantees reinsured from Great-West Life, London Life and Canada Life, LRG also has a closed portfolio of GMDB, GMAB, and guaranteed minimum income benefits (GMIB) that it has reinsured from other U.S. and Canadian life insurance and reinsurance companies.

In Europe, the Company offers UWP products through Canada Life and unit-linked products with investment guarantees through Irish Life. These products are similar to segregated fund products, but include pooling of policyholders' funds and minimum credited interest rates. A GMWB product was introduced by Canada Life in Germany in the first quarter of 2009 and in Ireland in the fourth quarter of 2011. As at September 30, 2013, the GMWB product is no longer offered in Ireland.

In the U.S., the Company offers variable annuities with GMDB through Great-West Financial and Great-West Life & Annuity Insurance Company of New York. Most are a return of premium on death with the guarantee expiring at age 70. A GMWB product offered through Great-West Financial was introduced in the U.S. in the second quarter of 2010.

For policies with these guarantees, the Company generally determines policy liabilities at a CTE75 (conditional tail expectation of 75) level. The CTE75 level determines the amount of policy liabilities as the amount required in excess of the policyholder funds in the average of the 25% worst scenarios tested, using scenario generating processes consistent with the Canadian Institute of Actuaries Standards of Practice. Generally, if this amount is less than zero, then no policy liability is held for the guarantees.

For purposes of determining the required capital for these guarantees a Total Gross Calculated Requirement (TGCR) is determined and the required capital is equal to the TGCR less the policy liabilities held. The TGCR was $218 million at December 31, 2013 ($30 million at December 31, 2012). The Office of the Superintendent of Financial Institutions (OSFI) rules for the TGCR provide for a CTE98 level for cash flows within one year, CTE95 level for cash flows between one and five years, and between CTE90 level and CTE95 level for cash flows greater than five years. The TGCR is determined separately for business written on or after January 1, 2011, as this business is subject to more stringent rules and cannot be offset by business written prior to 2011. All Canadian business is valued using OSFI approved internal models or approved OSFI factors.

The GMWB products offered by the Company in Canada, the U.S., Ireland and Germany provide the policyholder with a guaranteed minimum level of annual income for life. The minimum level of income may increase depending upon the level of growth in the market value of the policyholder's funds. Where the market value of the policyholder's funds is ultimately insufficient to meet the level of guarantee purchased by the policyholder, the Company is obligated to make up the shortfall.

These products involve cash flows of which the magnitude and timing are uncertain and are dependent on the level of equity and fixed income market returns, interest rates, currency markets, market volatility, policyholder behaviour and policyholder longevity.

The Company has a hedging program in place to manage certain risks associated with options embedded in its GMWB products. The program methodology quantifies both the embedded option value and its sensitivity to movements in equity markets, currency markets and interest rates. Equity derivative instruments, currency derivative instruments and interest rate derivative instruments are used to mitigate changes in the embedded option value attributable to movements in equity markets, currency markets and interest rates respectively. The hedging program, by its nature, requires continuous monitoring and rebalancing to avoid over or under hedged positions. Periods of heightened market volatility will increase the frequency of hedge rebalancing.

By their nature, certain risks associated with the GMWB product either cannot be hedged, or cannot be hedged on a cost effective basis. These risks include policyholder behaviour, policyholder longevity, basis risk and market volatility. Consequently, the hedging program will not mitigate all risks to the Company associated with the GMWB products, and may expose the Company to additional risks including the operational risk associated with the reliance upon sophisticated models, and counterparty credit risk associated with the use of derivative instruments.

Other risk management processes are in place aimed at appropriately limiting the Company’s exposure to the risks it is not hedging or are otherwise inherent in this GMWB hedging program. In particular, the GMWB product has been designed with specific regard to limiting policyholder anti selection, and the array of investment funds available to policyholders has been determined with a view to minimizing underlying basis risk.

The GMWB products offered by the Company offer levels of death and maturity guarantees. At December 31, 2013, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was $2,674 million ($2,110 million at December 31, 2012).

Segregated funds guarantee exposure

		December 31, 2013			
		Investment deficiency by benefit type			
	Market Value	Income	Maturity	Death	Total*
Canada	$ 26,779	$ -	$ 32	$ 101	$ 101
United States	8,853	-	-	42	42
Europe					
Insurance & Annuities	7,537	-	16	52	52
Reinsurance**	1,146	260	-	22	282
	8,683	**260**	**16**	**74**	**334**
Total	**$ 44,315**	**$ 260**	**$ 48**	**$ 217**	**$ 477**

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

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

The investment deficiency measures the point-in-time exposure to a trigger event (i.e., income election, maturity, or death) assuming it occurred on December 31, 2013. The actual cost to the Company will depend on the trigger event having occurred and the market values at that time. The actual claims before tax associated with these guarantees was approximately $2 million in-quarter and $24 million year-to-date, with the majority arising in the Europe segment.

LIFECO CAPITAL STRUCTURE

DEBENTURES AND OTHER DEBT INSTRUMENTS

Debentures and other debt instruments increased by $1,457 million compared to 2012 primarily due to €500 million of euro-denominated 10-year bonds issued as part of the Company’s financing for its acquisition of Irish Life. The bonds pay an annual coupon of 2.50% and were priced at 99.755% of par for a yield to maturity of 2.528%. The bonds are rated A+ by Standard & Poor's Ratings Services and are listed on the Irish Stock Exchange. This was Lifeco's first debt issuance in the euro market. In the Irish Life transaction, Lifeco acquired an outstanding €200 million Step-Up Perpetual Capital Note and a €50 million mortgage, both previous Irish Life transactions. The €200 million perpetual capital note pays a 5.25% fixed rate coupon until February 2017, after which it may be redeemed at par or left outstanding at a reset coupon of 3 month EURIBOR +203 bps. The 5.25% fixed rate coupon has been swapped to a floating rate of 3 month EURIBOR plus 99.75 bps until February 2017.

In 2013, Lifeco renewed a US$500 million revolving credit facility agreement with a syndicate of banks for 3 years. This Lifeco-guaranteed Putnam facility expires June 17, 2016. As at December 31, 2013, US$450 million (US$200 million at December 31, 2012) was drawn.

Consent Solicitation

On October 31, 2013, Lifeco successfully completed a consent solicitation of the holders of its 6.67% debentures due March 21, 2033 and amended the related trust indenture dated March 21, 2003. The Company paid each 2033 debenture holder $17.50 per $1,000 principal amount to remove the replacement capital covenant relating to certain preferred shares (Lifeco series F,G,H,I,L,M) and the Great-West Lifeco Finance (Delaware) 5.691% and 7.127% subordinated debentures.

The removal of the replacement capital covenant provides the Company with the ability to be responsive to credit rating agency considerations and regulatory capital developments while providing greater flexibility to manage its capital structure.

Refer to note 18 to the Company's annual consolidated financial statements for further details of the Company's debentures and other debt instruments.

CAPITAL TRUST SECURITIES

Canada Life Capital Trust Securities (CLiCS) - At December 31, 2013, the Company has $150 million principal outstanding of Canada Life Capital Trust Securities – Series B (CLiCS – Series B) of which $47 million of these securities are included in the Company's invested assets ($45 million at December 31, 2012).

Each holder of the CLiCS – Series B is entitled to receive a semi-annual non-cumulative fixed cash distribution of $37.645 per CLiCS – Series B, representing an annual yield of 7.529% payable out of Canada Life Capital Trust's (CLCT) distributable funds. Subject to regulatory approval, CLCT may redeem the CLiCS, in whole or in part, at any time and are callable at par on June 30, 2032.

EQUITY

In establishing the appropriate mix of capital required to support the operations of the Company and its subsidiaries, management utilizes a variety of debt, equity and other hybrid instruments giving consideration to both the short and long-term capital needs of the Company.

Share capital outstanding at December 31, 2013 was $9,426 million, which comprises $7,112 million of common shares, $2,064 million of fixed rate First Preferred Shares, and $250 million of rate reset First Preferred Shares.

Common shares

At December 31, 2013, the Company had 999,402,079 common shares outstanding with a stated value of $7,112 million compared to 950,596,440 common shares with a stated value of $5,848 million at December 31, 2012.

Included in the shares outstanding are 48,660,000 subscription receipts that were exchanged on a one-for-one basis for Lifeco common shares upon completion of the Irish Life acquisition on July 18, 2013. This increased the stated capital by approximately $1.2 billion, net of transaction costs.

Pursuant to the terms of the subscription receipts, a dividend equivalent amount of $0.3075 per subscription receipt was paid to holders of subscription receipts as a result of Lifeco having declared a dividend of $0.3075 per common share payable to common shareholders of record on May 31, 2013. The dividend equivalent amount was in aggregate $15 million which included an $11 million refund to the subscription receipt holders and $4 million of interest expense, reflecting the interest earned on the proceeds of the subscription receipts funds held in escrow.

During the twelve months ended December 31, 2013, the Company repurchased and subsequently cancelled 1,885,381 common shares (2012 – nil) at an average cost per share of $31.32 under its Normal Course Issuer Bid (NCIB) program.

In order to mitigate the dilutive effect of stock options granted under the Company’s Stock Option Plan, the Company renewed its NCIB on December 9, 2013 for one year, enabling the Company to purchase and cancel up to 6,000,000 of its common shares at market prices.

Preferred shares

At December 31, 2013, the Company had nine series of fixed perpetual preferred shares and one series of rate reset perpetual preferred shares outstanding with aggregate stated values of $2,064 million and $250 million respectively. Lifeco redeemed all its outstanding $230 million Series J Rate Reset Preferred Shares on December 31, 2013 for $25.00 per share, plus an amount equal to all declared and unpaid dividends thereon, less any tax required to be deducted and withheld by the corporation. The terms and conditions of the outstanding preferred shares are set out in the table below:

	Great-West Lifeco Inc.				
	Series F	Series G	Series H	Series I	Series L
General Type	Fixed rate perpetual	Fixed rate perpetual	Fixed rate perpetual	Fixed Rate Perpetual	Fixed rate perpetual
Cumulative/Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Date Issued	Jul 10, 2003	Sep 14, 2004	Aug 12, 2005	Apr 12, 2006	Oct 2, 2009
Shares Outstanding	7,740,032	12,000,000	12,000,000	12,000,000	6,800,000
Amount Outstanding (Par)	$193,500,800	$300,000,000	$300,000,000	$300,000,000	$170,000,000
Yield	5.90%	5.20%	4.85%	4.50%	5.65%
Earliest Issuer Redemption Date	Sep 30, 2008	Dec 31, 2009	Sep 30, 2010	Jun 30, 2011	Dec 31, 2014

	Great-West Lifeco Inc.				
	Series M	Series N[1]	Series P	Series Q	Series R
General Type	Fixed rate perpetual	5-Year Rate Reset	Fixed rate perpetual	Fixed rate perpetual	Fixed rate perpetual
Cumulative/Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Date Issued	Mar 4, 2010	Nov 23, 2010	Feb 22, 2012	Jul 6, 2012	Oct 11, 2012
Shares Outstanding	6,000,000	10,000,000	10,000,000	8,000,000	8,000,000
Amount Outstanding (Par)	$150,000,000	$250,000,000	$250,000,000	$200,000,000	$200,000,000
Yield	5.80%	3.65%	5.40%	5.15%	4.80%
Earliest Issuer Redemption Date	Mar 31, 2015	Dec 31, 2015	Mar 31, 2017	Sep 30, 2017	Dec 31, 2017

1) On December 31, 2015 and on December 31 every five years thereafter, the Lifeco Series N First Preferred Shares dividend rate will reset so as to equal the then current five-year Government of Canada bond yield plus 1.30%. Lifeco has the right to redeem the Lifeco Series N First Preferred Shares, in whole or in part, on December 31, 2015 and on December 31 every five years thereafter for $25.00 cash per share plus declared and unpaid dividends. Subject to Lifeco's right of redemption and certain other restrictions on conversion described in Lifeco's articles, each Lifeco Series N First Preferred Share is convertible at the option of the holder on December 31, 2015 and on December 31 every five years thereafter into one Lifeco Series O First Preferred Share, which will carry a floating rate non-cumulative preferential cash dividend, as and when declared by the Board of Directors.

The terms and conditions of the Series F, G, H, I, L, M, N, P, Q, and R do not allow the holder to convert to common shares of the Company or otherwise cause the Company to redeem the shares. Preferred shares of this type are commonly referred to as perpetual and represent a form of financing that does not have a fixed term.

NON-CONTROLLING INTERESTS

The Company's non-controlling interests include participating account surplus in subsidiaries and non-controlling interests in subsidiaries. Refer to note 22 to the Company's annual consolidated financial statements for further details.

Non-controlling interests	December 31	
	2013	2012
Participating account surplus in subsidiaries:		
Great-West Life	**$ 549**	$ 552
London Life	**1,661**	1,822
Canada Life	**132**	66
Great-West Financial	**12**	11
	$ 2,354	$ 2,451
Non-controlling interests in subsidiaries	**$ 8**	$ 5

LIQUIDITY AND CAPITAL MANAGEMENT AND ADEQUACY

LIQUIDITY

The Company's liquidity requirements are largely self-funded, with short-term obligations being met by generating internal funds and maintaining adequate levels of liquid investments. The Company holds cash and cash equivalents at the Lifeco holding company level and Lifeco consolidated subsidiary companies. At December 31, 2013, Lifeco held cash and cash equivalents of $6.4 billion ($5.0 billion at December 31, 2012) and government bonds of $28.3 billion ($25.8 billion at December 31, 2012). Irish Life contributed $0.4 billion in cash and cash equivalents in 2013. At December 31, 2013, the Company held cash and cash equivalents of approximately $0.6 billion ($0.5 billion at December 31, 2012) at the Lifeco holding company level. In addition, the Company maintains sizable committed lines of credit with Canadian chartered banks for unanticipated liquidity needs, if required.

The Company does not have a formal common shareholder dividend policy. Dividends on outstanding common shares of the Company are declared and paid at the sole discretion of the Board of Directors of the Company. The decision to declare a dividend on the common shares of the Company takes into account a variety of factors including the level of earnings, adequacy of capital and availability of cash resources. As a holding company, the Company's ability to pay dividends is dependent upon the Company receiving dividends from its operating subsidiaries. The Company's operating subsidiaries are subject to regulation in a number of jurisdictions, each of which maintains its own regime for determining the amount of capital that must be held in connection with the different businesses carried on by the operating subsidiaries. The requirements imposed by the regulators in any jurisdiction may change from time-to-time, and thereby impact the ability of the operating subsidiaries to pay dividends to the Company.

Liquid assets and other marketable securities

	December 31	
	2013	2012
Liquid assets		
Cash, treasury bills and certificates of deposits	**$ 6,404**	$ 4,992
Government bonds	**28,330**	25,792
Total liquid assets	**34,734**	30,784
Other marketable securities		
Corporate bonds	**35,135**	32,548
Common/Preferred shares (public)	**7,678**	6,395
Residential mortgages - insured	**3,561**	3,433
Total	**$ 81,108**	$ 73,160

Cashable liability characteristics

	December 31	
	2013	2012
Surrenderable insurance and investment contract liabilities		
At market value	**$ 15,727**	$ 14,483
At book value	**38,631**	35,721
Total	**$ 54,358**	$ 50,204

The majority of the liquid assets and other marketable securities comprise fixed income securities whose value is inversely related to interest rates. Consequently, a significant rise in prevailing interest rates would result in a decrease in the value of this pool of liquid assets. As well, a high interest rate environment may prompt holders of certain types of policies to terminate their policies, thereby placing demands on the Company's liquidity position.

The carrying value of the Company's liquid assets and other marketable securities is approximately $81.1 billion or 1.5 times the Company's expected total surrenderable insurance and investment contract liabilities. The Company believes that it holds a sufficient amount of liquid assets to meet unanticipated cash flow requirements prior to their maturity.

CASH FLOWS

Cash flows

	For the three months ended December 31		For the twelve months ended December 31	
	2013	2012	**2013**	2012
Cash flows relating to the following activities:				
Operations	**$ 1,213**	$ 1,347	**$ 5,026**	$ 4,722
Financing	**(451)**	(345)	**493**	(1,037)
Investment	**(880)**	(1,001)	**(4,813)**	(3,838)
	(118)	1	**706**	(153)
Effects of changes in exchange rates on cash and cash equivalents	**113**	23	**190**	(8)
Increase (decrease) in cash and cash equivalents in the period	**(5)**	24	**896**	(161)
Cash and cash equivalents, beginning of period	**2,796**	1,871	**1,895**	2,056
Cash and cash equivalents, end of period	**$ 2,791**	$ 1,895	**$ 2,791**	$ 1,895

The principal source of funds for the Company, on a consolidated basis, is cash provided by operating activities, including premium income, net investment income and fee income. In general, these funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements. Financing activities include the issuance and repayment of capital instruments, and associated dividends and interest payments.

In the fourth quarter, cash and cash equivalents decreased by $5 million from September 30, 2013. Cash flows provided by operations during the fourth quarter of 2013 were $1,213 million, a decrease of $134 million compared to the fourth quarter of 2012. Cash flows used in financing were $451 million, primarily used for payment of dividends to the preferred and common shareholders of $340 million and redemption of preferred shares of $230 million, partly offset by an increase in a line of credit of a subsidiary of $147 million. For the three months ended December 31, 2013, cash flows were used by the Company to acquire an additional $880 million of investment assets.

For the twelve months ended December 31, 2013, cash and cash equivalents increased by $896 million from December 31, 2012. Cash flows provided from operations were $5,026 million, an increase of $304 million compared to 2012. Cash flows related to financing were $493 million, primarily due to proceeds of $1.25 billion from the issuance of common shares related to subscription receipts and $659 million from the issuance of euro-denominated bonds used for the purchase of Irish Life, partly offset by the payment of dividends to the preferred and common shareholders of $1,330 million. In 2013, cash flows were used by the Company to acquire an additional $4,813 million of investment assets.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations
At December 31, 2013

	Payments due by period						
	Total	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**	**Over 5 years**
1) Debentures and other debt instruments	$ 5,757	$ 658	$ 322	$ -	$ 294	$ 200	$ 4,283
2) Operating leases							
- office	421	93	83	73	62	50	60
- equipment	16	7	5	3	1	-	-
3) Purchase obligations	197	61	33	28	25	17	33
4) Credit-related arrangements							
(a) Contractual commitments	466	466	-	-	-	-	-
(b) Letters of credit	see note 4(b) below						
5) Pension contributions	168	168	-	-	-	-	-
Total contractual obligations	$ 7,025	$ 1,453	$ 443	$ 104	$ 382	$ 267	$ 4,376

1) Refer to note 18 of the Lifeco annual consolidated financial statements.
2) Operating leases include office space and certain equipment used in the normal course of business. Lease payments are charged to operations over the period of use.
3) Purchase obligations are commitments to acquire goods and services, essentially related to information services.
4) (a) Contractual commitments are essentially commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions.
(b) Letters of credit (LOCs) are written commitments provided by a bank. The total amount of LOC facilities is US$3.0 billion of which US$2.6 billion were issued as of December 31, 2013.

The Reinsurance operation periodically uses letters of credit as collateral under certain reinsurance contracts for on balance sheet policy liabilities. Various Lifeco subsidiaries have provided LOCs as follows:

To external parties

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on the Company's behalf from approved banks in order to further secure the Company's obligations under certain reinsurance contracts.

Great-West Life Assurance Company has a letter of credit facility for US$650 million with a bank syndicate, which can be used by GWL and its subsidiaries. As of December 31, 2013, GWL subsidiaries have issued US$174 million to external parties.

Great-West Life Assurance Company also has a letter of credit facility for US$325 million for use by GWL and its subsidiaries. Under this facility, Canada Life has issued US$69 million to external parties to support reinsurance contracts.

As well, certain London Reinsurance Group subsidiaries and London Life have provided LOCs totaling US$7 million to external parties.

To internal parties

GWL&A Financial Inc. has a US$1.2 billion letter of credit facility. As of December 31, US$1,171 million has been issued to the U.S. branch of Canada Life as beneficiary, to allow it to receive statutory capital credit for reserves ceded to Great-West Life & Annuity Insurance Company of South Carolina.

GWL&A also has a US$70 million letter of credit facility in place. As of December 31, US$70 million has been issued to GWL&A insurance Company of South Carolina as beneficiary, to allow it to receive statutory capital credit.

Canada Life Assurance Company has a £117 million LOC issued to Canada Life Limited (CLL) as beneficiary, to allow CLL to receive statutory capital credit in the United Kingdom for a loan made to The Canada Life Group (UK) Limited.

Canada Life Reinsurance has a US$500 million letter of credit facility. As of December 31, US$369 million has been issued to Canada Life's US Branch.

In addition, using capacity from the facilities listed above, GWL subsidiaries have issued US$ 532 million to other subsidiaries.

5) Pension contributions are subject to change, as contribution decisions are affected by many factors including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond one year are excluded due to the significant variability in the assumptions required to project the timing of future contributions.

CAPITAL MANAGEMENT AND ADEQUACY

At the holding company level, the Company monitors the amount of consolidated capital available, and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate. Other foreign operations and foreign subsidiaries are required to comply with local capital or solvency requirements in their respective jurisdictions.

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio. The internal target range of the MCCSR ratio for Lifeco's major Canadian operating subsidiaries was revised to 175% to 215% (previously 175% to 200%) on a consolidated basis.

Great-West Life's MCCSR ratio at December 31, 2013 was 223% (207% at December 31, 2012). London Life's MCCSR ratio at December 31, 2013 was 238% (243% at December 31, 2012). Canada Life's MCCSR ratio at December 31, 2013 was 231% (203% at December 31, 2012). The MCCSR ratio does not take into account any impact from $0.6 billion of liquidity at the Lifeco holding company level.

At December 31, 2013, the Risk Based Capital (RBC) ratio of Great-West Financial, Lifeco's regulated U.S. operating company, is estimated to be 480% of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Financial reports its RBC ratio annually to U.S. Insurance Regulators.

The combined impact of all capital activity and additional regulatory capital requirements related to the acquisition of Irish Life was +1 point on the Great-West Life MCCSR ratio. The related impact for Canada Life was +4 points and nil for London Life.

Of the $575 million total impact of IAS 19R, the Company's federally regulated subsidiaries were able to elect an amount of $454 million to phase in over eight quarters for MCCSR regulatory reporting purposes. Subsequent to the January 1, 2013 transition to IAS 19R, as per OSFI's 2013 MCCSR Guideline, quarterly re-measurements to defined benefit plans impacting available capital for the Company's federally regulated subsidiaries will be amortized over twelve quarters.

As at December 31, 2012, the Company's federally regulated subsidiaries completed the phase in of the impact on capital resulting from the conversion to IFRS. As a result of proposed future changes to the IFRS for measurement of insurance contract liabilities and the evolving nature of IFRS, there will likely be further regulatory capital and accounting changes, some of which may be significant.

In calculating the MCCSR position, available regulatory capital is reduced by goodwill and intangible assets, subject to a prescribed inclusion for a portion of intangible assets.

The capitalization decisions of the Company and its operating subsidiaries give consideration to the impact such actions may have on the opinions expressed by various credit rating agencies that provide financial strength and other ratings to the Company.

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

The Company has established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy and business plans. The Board of Directors reviews and approves the annual capital plan as well as all capital transactions undertaken by management pursuant to the plan.

OSFI Regulatory Capital Initiatives

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

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

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

CAPITAL ALLOCATION METHODOLOGY

The Company has a capital allocation methodology which allocates financing costs in proportion to allocated capital. For the Canadian and European segments (essentially Great-West Life), this allocation method tracks the regulatory capital requirements, while for U.S. Financial Services and U.S. Asset Management (Putnam), it tracks the financial statement carrying value of the business units. Total leverage capital is consistently allocated across all business units in proportion to total capital resulting in debt-to-equity ratio in each business unit mirroring the consolidated Company.

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

Return on Equity	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012[3]
Canada	**23.9 %**	25.3 %	22.7 %
U.S. Financial Services [1]	**17.8 %**	19.4 %	20.9 %
U.S. Asset Management (Putnam)	**(3.7)%**	(3.3)%	(2.4)%
Europe	**14.9 %**	15.0 %	18.2 %
Lifeco Corporate [2]	**(12.6)%**	(6.7)%	(5.9)%
Total Lifeco Operating Earnings Basis [2]	**15.0 %**	16.0 %	16.5 %
Total Lifeco Net Earnings Basis	**16.6 %**	14.9 %	15.3 %

(1) Includes U.S. Corporate.

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

(3) Comparative figures have been updated for the impact of the adoption of IAS 19R, *Employee Benefits*.

ROE is the trailing four quarter calculation of net earnings divided by common shareholders' equity. The Company reported ROE based on net earnings of 16.6% compared to 15.3% at December 31, 2012. The Company achieved a 15.0% ROE on operating earnings of $491 million, in line with its long-term objective. ROE based on adjusted operating earnings of $540 million, which exclude the impact of restructuring and acquisition costs associated with the Irish Life acquisition and a macro capital hedge, was 15.9%.

RATINGS

Lifeco and its major operating subsidiaries received strong ratings from the five rating agencies that rate the Company as set out below. The operating companies below are assigned a "fleet" rating from each rating agency. This fleet rating is predominantly supported by the Company's leading position in the Canadian insurance market and competitive positions in the U.S. and Europe. Great-West Life, London Life and Canada Life have common management, governance and strategy, as well as an integrated business platform. Each operating company benefits from the strong implicit financial support and collective ownership by Lifeco. There were no changes to the Company's credit ratings in the fourth quarter of 2013.

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

The Irish Life €200 million perpetual capital notes assumed on acquisition are rated BBB- by the Standard & Poor's Ratings Services and BBB by Fitch Ratings. At December 31, 2013, Irish Life maintained its own credit rating and was not included as part of the fleet rating.

RISK GOVERNANCE

The Board of Directors is ultimately accountable and responsible for the governance and oversight of risk throughout the Company and regularly reviews and approves the Company's Risk Appetite Framework and Enterprise Risk Management Policy.

The Risk Committee of the Board provides advice to the Board of Directors on enterprise risk oversight matters and approves and monitors compliance with specific risk policies. This committee also ensures that effective processes are in place for the identification, measurement, management, monitoring and reporting on risks.

The Executive Risk Management Committee (ERMC) is the executive level risk committee. The ERMC oversees all forms of risk and reviews compliance with risk policies and the Risk Appetite Framework.

The Company's Enterprise Risk Management Framework builds on a three lines of defence risk governance model. The first line of defence resides in the business units who are the ultimate owners of risk and have primary responsibility and accountability for risk processes. There is a strong risk awareness culture at the Company that is embedded in the first line business units. The second line of defence includes the Risk, Actuarial, Compliance and Finance functions which are accountable for the independent oversight of risk taking. As the third line of defence, Internal Audit is accountable for independent assurance and validation of the design and effectiveness of the Company's Enterprise Risk Management Framework.

RISK MANAGEMENT AND CONTROL PRACTICES

Insurance companies are in the business of assessing, structuring, pricing, assuming and managing risk. The types of risks are many and varied, and will be influenced by factors both internal and external to the businesses operated by the insurer. These risks, and the control processes used to manage the risks, may be broadly grouped into four categories:

1. Insurance Risks
2. Investment and Financial Market Risks
3. Operational Risks
4. Other Risks

The risks specifically associated with the Asset Management business are discussed in Operational Risks. It must be noted, however, that items included in the third or fourth categories, such as legal, rating, regulatory or reputational risks, may still represent significant risks notwithstanding the expectation that they may be less likely to be realized or may be of a lesser magnitude.

INSURANCE RISKS

GENERAL

By their nature, insurance products involve commitments by the insurer to provide services and financial obligations with coverage for extended periods of time. In order to provide insurance protection profitably, the insurer must design and price products so that the premiums received, and the investment income earned on those premiums, will be sufficient to pay future claims and expenses associated with the product. This requires the insurer, in pricing products and establishing insurance contract liabilities, to make assumptions regarding expected levels of income, claims and expense. Although pricing on some products is guaranteed throughout the life of the contract, insurance contract liability valuation requires regular updating of assumptions to reflect emerging experience. Ultimate profitability will depend upon the relationship between actual experience and pricing assumptions over the contract period.

The Company maintains Corporate Product Design and Pricing Risk Management Policies and Corporate Reinsurance Ceded Risk Management Policies which are reviewed and approved by the Boards of Directors of the principal operating subsidiaries. These policies are intended to ensure that consistent guidelines and standards for the product design and pricing risk management processes and reinsurance ceded risk management practices associated with insurance business are followed across the Company. These policies outline the requirements of corresponding policies (including approval practices) that each line of business is required to develop, maintain and follow. Annually the Chief Actuaries report to the Audit Committees confirming compliance with the policies.

The Company maintains a Corporate Actuarial Valuation Policy which sets out the documentation and control standards that are designed to ensure that valuation standards of the Canadian Institute of Actuaries and of the Company are applied across all lines of business and jurisdictions. Certifying Actuaries confirm their compliance with this policy quarterly.

The Company issues both participating and non-participating life insurance policies. The Company maintains accounts in respect of participating policies separately from those maintained in respect of other policies, as required by the *Insurance Companies Act (Canada)*. Participating policies are those that entitle the holder of the policy to participate in the profits of the participating accounts of the Company pursuant to a policy for determining dividends to be paid to participating policyholders. The Company maintains Participating Policyholder Dividend Policies and Participating Account Management Policies, approved by the Boards of Directors of the principal operating subsidiaries, which govern the management of participating accounts and provide for the distribution of a portion of the net earnings in the participating account as participating policyholder dividends. The Company also maintains methods for allocating to the participating account expenses and taxes of the Company and its investment income, losses and expenses. These methods have also been approved by the Boards of Directors of the principal operating subsidiaries, and the Appointed Actuaries report annually to the Boards of Directors of the principal operating subsidiaries, opining on the fairness and equitableness of the methods and that any participating policyholder dividends are in accordance with the Participating Policyholder Dividend Policy.

The following identifies the key overarching insurance risks, and risk management techniques used by the Company.

Risk	Management of Risk
Claims Mortality and Morbidity	
Mortality relates to the occurrence of death and morbidity relates to the incidence and duration of disability insurance claims, the incidence of critical conditions for critical illness insurance, and the utilization of health care benefits. There is a risk that the Company mis-estimates the level of mortality or morbidity, or accepts customers who generate worse mortality and morbidity experience than expected.	Research and analysis is done regularly to provide the basis for pricing and valuation assumptions to properly reflect the insurance and reinsurance risks in markets where the Company is active. Underwriting limits control the amount of risk exposure. Underwriting practices control the selection of risks insured for consistency with claims expectations. Underwriting policies have been developed to support the long-term sustainability of the business. The insurance contract liabilities established to fund future claims include a provision for adverse deviation, set in accordance with professional standards. This margin is required to make provision for the possibilities of mis-estimation of the best estimate and/or future deterioration in the best estimate assumptions. The Company sets and adheres to retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk. The Company manages large blocks of business which, in aggregate, are expected to result in relatively low statistical fluctuations in any given period. For some policies, cost of insurance charges could be increased if necessary to contractual maximums, if applicable. Morbidity risk is mitigated through effective plan design and claims adjudication practices.

Concentration	
For Group life products, exposure to a multiple death scenario, due to concentration of risk in employment locations for example, could have an impact on financial results.	Risk concentrations are monitored for new business and renewals. Plan design features and medical underwriting limit the amount of insurance on any one life. The Company may impose single-event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive.
Healthcare Cost Inflation	
For Group healthcare products, inflation and utilization will influence the level of claim costs. Claims utilization can be difficult to predict. The impact of aging, which plays a role in utilization, is well documented, however the introduction of new services, such as breakthrough drug therapies, has the potential to substantially escalate benefit plan costs.	The Company manages the impact of these and similar factors through plan designs that limit new costs and long-term price guarantees, and through pricing that takes demographic and other trend factors into account.
Longevity	
Annuitants could live longer than was estimated by the Company.	Business is priced using prudent mortality assumptions which take into account recent Company and industry experience and the latest research on expected future trends in annuitant mortality. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk. The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to limit annuity payments to those contractually entitled to receive them and helps ensure mortality data used to develop pricing assumptions is as complete as possible.
Policy Termination	
Many products are priced and valued to reflect the expected duration of contracts. There is a risk that the contract may be terminated before expenses can be recovered, to the extent that higher costs are incurred in early contract years. Risk also exists where the contract is terminated later than assumed, on certain long-term level premium products where costs increase by age. The risk also includes the potential cost of cash flow mismatch on book value products.	Business is priced using prudent policy termination assumptions which take into account recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated for future new issues as necessary. The Company also incorporates early surrender charges into contracts and incorporates commission claw backs in its distribution agreements to reduce unrecovered expenses. Policyholder taxation rules in many jurisdictions encourage the retention of insurance coverage.
Expense Management	
Increases in operating expenses could reduce profit margins.	Expense management programs are regularly monitored to control unit costs and form a component of management incentive compensation plans.
Interest Rate Pricing and Repricing	
Products are priced and valued based on the investment returns available on the assets that support the insurance and investment contract liabilities. If actual investment returns are different from those implicit in the pricing assumptions, actual returns in a given period may be insufficient to cover contractual guarantees and commitments or insurance and investment contract liability requirements. Products with long-term cash flows and pricing guarantees carry more risk.	There is regular and ongoing communication between pricing, valuation and investment management to establish appropriate interest rate assumptions, with a focus on closely matching assets and liabilities to minimize reinvestment risks, bearing in mind assets may not be available to match the liabilities, especially at longer durations.

Cash Flow Matching	
Mismatches between asset and liability cash flows could reduce profit margins in unfavourable interest rate environments.	Margins on non-adjustable products are protected through matching of assets and liabilities within reasonable limits. Margins on adjustable products are protected through frequent monitoring of asset and liability positions. The valuation of both of these product types employs modeling using multiple scenarios of future interest rates, and prudent reserving including provisions for adverse deviations. The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are selected and managed in relation to the liabilities in the segment. Changes in the fair value of these assets are essentially offset by changes in the fair value of insurance and investment contract liabilities.
Reinsurance Assumed	
The reinsurance business in particular has exposure to natural catastrophic events that result in property damage. As retrocessionaire for property catastrophe risk, the Company generally participates at significantly higher event-loss exposures than primary carriers and reinsurers. Generally, an event of significant size must occur prior to the Company incurring a claim.	The Company limits the total maximum claim amount under all contracts. The Company monitors cedant companies' claims experience on an ongoing basis and incorporates their experience in pricing models to ensure that the compensation is adequate for the risk undertaken.
Investment Guarantees	
A significant decline in market values could increase the cost to the Company associated with segregated fund death, maturity, income and withdrawal guarantees. In addition, lower interest rates and increased policyholder utilization could increase the cost to the Company associated with general fund account guarantees, segregated fund income and withdrawal guarantees.	Prudent product design, effective marketing, asset allocation within client portfolios and our broad distribution within Canada and the U.S., all contribute to a significantly diverse profile of in-force segregated funds, issued steadily over many years, which helps to mitigate exposure in Canada and the U.S. to guarantees related to segregated funds. The Company has implemented a hedging program for segregated funds with withdrawal guarantees. This program consists of entering into equity futures, currency forwards, interest rate futures and swaps to mitigate exposure to the movement in the cost of withdrawal guarantees due to changes in capital markets.

INVESTMENT AND FINANCIAL MARKET RISKS

The Company acquires and manages asset portfolios to produce risk adjusted returns in support of policyholder obligations and corporate profitability. Portfolio investments consist of bonds, stocks, mortgage loans and investment properties. Derivatives include Interest Rate Contracts (futures, swaps, written options, purchased options), Foreign Exchange Contracts (forward contracts, cross currency swaps) and other derivative contracts (equity contracts, credit default swaps). The Boards of Directors or the Executive Committees and the Investment Committees of the Boards of Directors (Investment Committees) of certain principal subsidiaries of Lifeco annually approve Investment and Lending Policies, as well as Investment Procedures and Guidelines. Investments are made in accordance with these investment policies which provide guidance on the mix of assets allowable for each product segment.

A comprehensive report on compliance with these policies and guidelines is presented to the Boards of Directors or Investment Committees annually, and the Internal Audit department conducts an independent review of compliance with investment policies, procedures and guidelines on a periodic basis.

The significant investment or financial market risks associated with the business are outlined below.

Risk	Management of Risk
Interest Rate Risk	
Interest rate risk exists if the cash flows of the liabilities and those of the assets supporting these liabilities are not closely matched and interest rates change causing a difference in value between the assets and liabilities.	Interest rate risk is managed by investing in assets that are suitable for the products sold. For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. Protection against interest rate change is achieved as any change in the fair market value of the liabilities will be offset by a similar change in the fair value of the assets. For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of shorter duration than the anticipated timing of the benefit payments. The Company regularly monitors market and liability developments and may execute from time-to-time risk reduction programs, such as hedging. Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), the Company generally invests in real return instruments to hedge its real dollar liability cash flows. Some protection against changes in the inflation index is achieved as any related change in the fair value of the assets will be largely offset by a similar change in the fair value of the liabilities.
Equity Market Risk	
Given the volatility in equity markets, income in any year may be adversely affected by decreases in market values, notwithstanding the Company's long-term expectation of investment returns appropriate for this asset class. Returns from equities backing a portion of the non-adjustable life and living benefits insurance contract liabilities may be insufficient.	The Company's investment policy guidelines provide for prudent investment in equity markets within clearly defined limits. Exposure to common stocks and investment properties is managed to provide returns that are consistent with the requirements of the underlying segment. The Investment Policy sets out limits for equity investments. For those used to support non-adjustable policies, the time horizon for such investments is very long-term and the policy elements backed by these equities pose little or no liquidity risk. The allowable level of equities has been determined after carefully evaluating the tolerance for short-term income statement volatility and the balance between this volatility and long-term economic value.
Credit Risk	
The risk of loss if debtors, counterparties or intermediaries are unable or unwilling to fulfill their financial obligations.	It is Company policy to acquire only investment grade assets and minimize undue concentration of assets in any single geographic area, industry and company. Guidelines specify minimum and maximum limits for each asset class. Credit ratings for bonds are determined by an internal credit assessment, taking into consideration the ratings assigned by recognized rating agencies. These portfolios are monitored continuously and reviewed regularly with the Boards of Directors or the Investment Committees. Derivative products are traded with counterparties approved by the Boards of Directors or the Investment Committees. Derivative counterparty credit risk is evaluated quarterly on a current exposure method, using practices that are at least as conservative as those recommended by regulators. Companies providing reinsurance to the Company are reviewed for financial soundness as part of the ongoing monitoring process. The Company regularly monitors investment markets and economic conditions and may execute from time-to-time risk reduction programs, such as hedging.

Liquidity Risk	
The risk of loss if insufficient funds are available to meet anticipated operating and financing commitments and unexpected cash demands.	The Company closely manages operating liquidity through cash flow matching of assets and liabilities and maintaining adequate liquidity sources to cover unexpected payments. The Company forecasts earned and required yields to ensure consistency between policyholder requirements and the yield of assets.
There is a risk of default if the Company is unable to post adequate collateral with derivative counterparties.	The Company carefully considers whether or not to enter into derivative arrangements on a collaterized or uncollaterized basis. Where the Company or its subsidiaries enter into collaterized arrangements, the Company periodically tests the availability of suitable collateral under stress scenarios.
In the normal course of its Reinsurance business, the Company provides LOCs to other parties, or beneficiaries. A beneficiary will typically hold a LOC as collateral in order to secure statutory credit for insurance and investment contract liabilities ceded to or amounts due from the Company. The Company may be required to seek collateral alternatives it if was unable to renew existing LOCs at maturity.	Management monitors its use of LOCs on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit. The Company has contractual rights to reduce the amount of LOCs issued to the LOC beneficiaries for certain reinsurance treaties.

Foreign Exchange Risk	
The Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations due to the movement of the Canadian dollar against these currencies. Such fluctuations affect financial results. The Company has significant exposures to the U.S. dollar resulting from the operations of Great-West Financial and Putnam in the United States segment and Reinsurance and to the British pound and the euro resulting from operations in the U.K., Isle of Man, Ireland and Germany in the Europe segment. The Company has net investments in foreign operations. In addition, the Company's debt obligations are mainly denominated in Canadian dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income (loss). Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates impacts the Company's total share capital and surplus. Correspondingly, the Company's book value per share and capital ratios monitored by rating agencies are also impacted. A 1% appreciation (depreciation) of the average exchange rate of the Canadian dollar to the U.S. dollar, British pound and euro together would decrease (increase) operating earnings in 2013 by $11 million. A 1% appreciation (depreciation) of the Canadian dollar compared to the average U.S. dollar, British pound and euro together would decrease (increase) the unrealized foreign currency translation losses in accumulated other comprehensive income (loss) of shareholders' equity by $106 million as at December 31, 2013.	Management utilizes forward foreign currency contracts and foreign denominated debt to mitigate the volatility arising from the movement of rates as they impact the translation of net investments in foreign operations. The Company uses non-IFRS financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation on financial results. Investments are normally denominated in the same currency as the liabilities they support. Foreign currency assets acquired to back liabilities are generally converted back to the currency of the liabilities using foreign exchange contracts.
Derivative Instruments	
There is a risk of loss if derivatives are used for inappropriate purposes.	Approved policies only allow derivatives to be used to hedge imbalances in asset and liability positions or as substitutes for cash instruments. The Company's risk management process governing the use of derivative instruments requires that the Company act only as an end-user of derivative products, not as a market maker. The use of derivatives may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts, as well as interest rate caps, floors and collars. There were no major changes to the Company's and its subsidiaries' policies and procedures with respect to the use of derivative financial instruments in 2013.

OPERATIONAL RISKS

Following are the significant operational risks associated with the business.

Risk	Management of Risk
Operational Risk	
There is a risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. A significant proportion of Irish Life's employees are unionized workforce which may impact the achievement of integration plans.	The Company manages and mitigates internal operational risks through integrated and complementary policies, procedures, processes and practices. Human Resources hiring, performance evaluation, promotion and compensation practices are designed to attract, retain and develop the skilled personnel required. A comprehensive job evaluation process is in place and training and development programs are supported. Each business area provides training designed for their specific needs and has developed appropriate internal controls. Processes and controls are monitored and refined by the business areas and periodically reviewed by the Company's Internal Audit department. Financial reporting processes and controls are further examined by external auditors. The Company applies a robust project management discipline to all significant initiatives. Appropriate security measures protect premises and information. The Company has emergency procedures in place for short-term incidents or outages and is committed to maintaining business continuity and disaster recovery plans in every business location for the recovery of critical functions in the event of a disaster, which include offsite backup data storage and alternative work area facilities.
Changes in Managed Asset Values	
The Company's investment fund businesses are fee-based, with revenue and profitability based primarily on the market value of investment fund assets under management. Accordingly, fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management which is affected by prevailing market conditions, and the inflow and outflow of client assets (including purchases and redemptions). Factors that could cause assets under management and revenues to decrease include declines in equity markets, changes in fixed income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that fees may vary but expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue and income.	Through its wide range of funds, the Company seeks to limit its risk exposure to any particular financial market. In its Canadian segregated fund business, the Company encourages its clients to follow a diversified long-term asset allocation approach to reduce the variability of returns and the frequency of fund switching. As a result of this approach, a significant proportion of individual segregated fund assets are in holdings of either a diversified group of funds or "fund of funds" investment profiles, which are designed to improve the likelihood of achieving optimal returns within a given level of risk. The investment process for assets under management is primarily based upon fundamental research with quantitative research and risk management support. Fundamental research includes valuation analysis, economic, political, industry and company research, company visits, and the utilization of such sources as company public records and activities, management interviews, company prepared information, and other publicly available information, as well as analyses of suppliers, customers and competitors. Quantitative analysis includes the analysis of past trends and the use of sophisticated financial modeling to gauge how particular securities may perform. Putnam's risk management capability analyzes securities across all the Putnam Funds and other portfolios to identify areas of over concentration and other potential risks. In some cases the Company charges fees that are not related to assets but are based on premiums or other metrics, which reduces the sensitivity of income to market movements.

Staff Recruitment/Retention	
The Company is highly dependent on its ability to attract, retain and motivate highly skilled, and often highly specialized, personnel. The market for these professionals is extremely competitive and is increasingly characterized by movement among different firms. The loss of the services of key personnel or failure to attract replacement or additional qualified personnel could negatively affect financial performance. Failure to offer or maintain competitive compensation packages may result in increased levels of turnover among these professionals. Any increase in compensation to attract or retain key personnel could result in a decrease in net earnings. Departures of key personnel could lead to the loss of clients, which could have an adverse effect on results of operations and financial condition.	The Company uses external consultants to obtain benchmark compensation data and works closely with the Board of Directors to develop competitive compensation packages for key personnel. The Company also uses incentive based compensation instruments such as share grants of Putnam and Lifeco share options to retain and attract key personnel. Compensation of this type generally links the performance of the Company and an employee's ultimate compensation.
Contract Termination	
The retirement and investment services and asset and wealth management businesses derive substantially all of their revenue and net earnings from investment advisory agreements and service agreements with mutual funds and from other investment products. The contracts are terminable on relatively short notice without cause and management and distribution fees must be approved annually. The termination of, or failure to renew, one or more of these agreements or the reduction of the fee rates applicable to such agreements, could impact the Company's revenues and profits.	The Company devotes substantial resources to the investment management process and seeks to achieve consistent, dependable and superior performance results over time for all client portfolios. Assets under management are spread across a wide range of investment objectives, which creates diversity in the product lines. The Company's exposure to the segregated and mutual funds is spread across many individual funds. Considerable resources are devoted to maintaining a strong relationship with the Plan trustees or other applicable fiduciaries of the funds under the relevant agreements. Company representatives meet frequently with the various committees, Plan trustees and other fiduciaries to fulfill legal reporting requirements, keep them apprised of business developments, renegotiate contracts and/or address any issues they may have.
Access to Distribution	
The Company's ability to market its products is significantly dependent on its access to a client base of individual, corporate and public employee pension funds, defined contribution plan administrators, endowment funds, domestic and foreign institutions and governments, insurance companies, securities firms, brokers, banks, and other intermediaries. These intermediaries generally offer their clients products in addition to, and in competition with, the Company's products, and are not obligated to continue working with the Company. In addition, certain investors rely on consultants to advise them on the choice of advisor and consultants may not always consider or recommend the Company. The loss of access to a distribution channel, the failure to maintain effective relationships with intermediaries, or the failure to respond to changes in distribution channels could have a significant impact on the Company's ability to generate sales.	The Company has a broad network of distribution relationships. Products are distributed through numerous broker dealers, Managing General Agencies, financial planners and other financial institutions. In addition, Putnam has certain strategic alliances with investment management firms internationally. Putnam relies on its extensive global distribution group to market the Putnam Funds and other investment products across all major retail, institutional and retirement plan distribution channels.

Holding Company Structure	
As a holding company, the Company's ability to pay interest, dividends and other operating expenses and to meet its obligations generally depends upon receipt of sufficient funds from its principal subsidiaries and its ability to raise additional capital. In the event of the bankruptcy, liquidation or reorganization of any of these subsidiaries, insurance and investment contract liabilities of these subsidiaries will be completely provided for before any assets of such subsidiaries are made available for distribution to the Company; in addition, the other creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to the Company except to the extent that the Company is recognized as a creditor of the relevant subsidiaries. Any payment (including payment of interest and dividends) by the principal subsidiaries is subject to restrictions set forth in relevant insurance, securities, corporate and other laws and regulations which require that solvency and capital standards be maintained by Great-West Life, London Life, CLFC, Canada Life, Great-West Financial, and their subsidiaries and certain subsidiaries of Putnam. There are considerable risks and benefits related to this structure.	Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit and the Company's demonstrated ability to access capital markets for funds. Management actively monitors the regulatory laws and regulations at both the holding company and operating company levels.

OTHER RISKS

Other risks not specifically identified elsewhere include:

Risk	Management of Risk
Ratings	
Financial strength, claims paying ability ratings and ratings related to the issuance of financial instruments represent the opinions of rating agencies regarding the financial ability of Lifeco and its principal subsidiaries to meet its obligations, and are an important factor in establishing the competitive position of life insurance companies and affect financing costs. Rating organizations regularly analyze the financial performance and condition of insurers, including the Company's subsidiaries. Any ratings downgrades, or the potential for such downgrades, of the Company's subsidiaries could increase surrender levels of their insurance and annuity products and constrain the Company's ability to market and distribute products and services, and damage the Company's relationships with creditors, which may adversely impact future business prospects. These ratings represent an important consideration in maintaining customer confidence in the Company's subsidiaries and in their ability to market insurance and annuity products.	The Company strives to manage to a target credit rating by diligently monitoring the evolution of the rating criteria and processes of the various rating agencies.

Future Acquisitions	
From time-to-time, Lifeco and its subsidiaries evaluate existing companies, businesses, products and services, and such review could result in Lifeco or its subsidiaries disposing of or acquiring businesses or offering new, or discontinuing existing products and services. In the ordinary course of their operations the Company and its subsidiaries consider and discuss with third parties the purchase or sale of companies, businesses or business segments. If effected, such transactions could be material to the Company in size or scope, and could result in changes in the value of the securities of Lifeco, including the common shares of Lifeco.	Lifeco undergoes extensive due diligence upon any consideration of acquiring or disposing of businesses or companies or offering new, or discontinuing existing products and services. In its consideration of strategic acquisitions, the Company may determine it to be prudent to hold additional capital for contingencies that may arise during the integration period.
Legal and Regulatory Risk	
The Company and certain of its principal subsidiaries are subject to various legal and regulatory requirements imposed by common and civil law, legislation and regulation in Canada, the U.S., the U.K., Ireland and other jurisdictions applicable to reporting issuers and to insurance companies and companies providing investment management and other financial services (including supervision by governmental authorities in the jurisdictions in which they carry on business). These requirements, which include capital adequacy, liquidity and solvency requirements, investment restrictions, restrictions on the sale and marketing of insurance and annuity products and on the business conduct of insurers, asset managers and investment advisors, are primarily intended to protect policyholders, beneficiaries and investment advisory clients, not shareholders. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements, which in turn could lead to financial sanctions or penalties and damage to the Company's reputation, could have a material adverse effect on the Company. Regulators may reassess capital requirements from time-to-time and require additional capital to be held in various regulated subsidiaries. As well, regulatory capital requirements influence liquidity and the amount of capital that must be held by various regulated subsidiaries of the Company in particular jurisdictions and constrain the movement of capital from jurisdiction to jurisdiction, and accordingly such requirements may restrict the ability of such subsidiaries to declare and pay dividends to the Company. Potential regulatory changes in Canada include new guidance on capital requirements (OSFI's "Roadmap") currently expected in 2018, as well as new capital requirements for European entities being reviewed by the European Commission (Solvency II), currently expected in 2016.	The Company monitors compliance with the legal, regulatory, accounting and other standards and requirements in all jurisdictions where it conducts business and assesses trends in legal and regulatory change to keep business areas current and responsive. The risk of legal actions is managed through the various risk management and control practices described in this "Risk Management and Control Practices" section of this MD&A.

Legal and Regulatory Risk (cont'd)	
The Company adopted International Financial Reporting Standards (IFRS) on January 1, 2011 which impacted the opening surplus and net earnings of the Company. As well, new IFRS guidance including a revised standard on Insurance Contracts is being developed that may introduce significant change to the valuation of insurance contract liabilities and the presentation of results in financial statements. While there are significant uncertainties, as drafted, these accounting and regulatory developments may impact the financial position of the Company by subjecting the Company to widely fluctuating levels of reserve and capital requirements which would increase earnings volatility, therefore impacting the Company's flexibility to distribute cash to its providers of capital in the future. The Company and its subsidiaries operate in an increasingly regulated and litigious environment and as such 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 be material to the Company, or could result in significant damage to the reputation of the Company, which could in turn adversely impact future business prospects.	
Reputational Risk	
In the course of its business activities, the Company may be exposed to the risk that some actions may lead to damage to the Company's reputation and hence damage to its future business prospects. These actions may include unauthorized activities of employees or other people associated with the Company, inadvertent actions of the Company that become publicized and damage the Company's reputation, regular or past business activities of the Company that become the subject of regulator or media scrutiny and, due to a change of public perception, cause damage to the Company, or any other action or activity that gives rise to damage to the Company's general reputation.	The Company has ongoing controls to limit the unauthorized activities of people associated with the Company. The Company has adopted a Code of Business Conduct and Ethics which sets out the standards of business conduct to be followed by all directors, officers and employees of the Company. Further, the directors, officers and employees are required to sign off annually on their compliance with the Code of Business Conduct and Ethics. The Company also reacts to address situations that may escalate to a level that might give rise to damage to its reputation.

Reinsurance	
Through its subsidiaries, the Company is both a user and a provider of reinsurance, including both traditional reinsurance ceded, which is undertaken primarily to mitigate against assumed insurance risks, and financial reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited. The Company is required to pledge amounts of collateral or deposit amounts with counterparties in certain reinsurance transactions according to contractual terms. These arrangements could require additional requirements in the future depending on regulatory and market developments. While there are significant uncertainties in these developments and the associated impact on the financial position of the Company, these may impact the Company's financial flexibility.	The Company accounts for all reinsurance transactions in accordance with IFRS. In some cases, IFRS may differ from the accounting treatment utilized by the Company's reinsurers or its reinsureds based upon the rules applicable to them in their reporting jurisdictions. The Company believes that reinsurance transactions that it has entered into are appropriate and properly accounted for by the Company. Notwithstanding, the Company may, in connection with this type of reinsurance, be exposed to reputation or other risks depending on future events. The Company maintains a Corporate Reinsurance Ceded Risk Management policy which is reviewed and approved by the operating subsidiaries. Annually, the Chief Actuaries report to the Audit Committees, confirming compliance with the policy.
Support Systems and Customer Service Functions	
The ability to consistently and reliably obtain securities pricing information, accurately process client transactions and provide reports and other customer services is essential to the Company's operations. A failure of any of these systems could have an adverse effect on the Company's results of operations and financial condition. In addition, any delays or inaccuracies in obtaining pricing information, processing client transactions or providing reports, in addition to any inadequacies in other customer service could lead to loss of client confidence, harm to the Company's reputation, exposure to disciplinary action, and liability to the Company's clients. As part of normal operations, the Company maintains and transmits confidential information about its clients and proprietary information relating to its business operations. The Company could be subject to losses if it fails to properly safeguard sensitive and confidential information.	The Company's operations work with its systems and service providers to obtain reliability and efficiency of information systems. The Company utilizes high quality external systems and maintains controls relating to information security and also works with service providers to verify and assess the sufficiency of their controls.

Pension Risk	
The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans; the costs of these defined benefit plans are dependent on a host of factors including discount rates, returns on plans assets, compensation costs, inflation risks, employee service life, government regulations, and variances between expected and actual actuarial results. In the event that the pension plan assets do not achieve sustained growth over time and potential negative impact of the cost factors above, the Company could have a significant increase in pension funding obligations and costs that could reduce cash flows and profit margins. In certain jurisdictions, recent changes and proposed reform to government regulations could have a significant impact on the plans.	Pension risk is managed by regular monitoring of the plans, pension regulations and other factors that could impact the expenses and cash flows of the Company. The Company has a Pension Committee that provides oversight for the pension plans of the Company. Pension plan regulations are monitored on an ongoing basis to assess the impact of changes to government regulations on the status, funding requirements and financial results of the Company. Plan assumptions are reviewed regularly both internally and by external advisors and updated as necessary to reflect the latest research on expected future trends. The pension plans and assumptions are subject to external audit on an annual basis. The Company has introduced defined contribution plans for new employees in a number of jurisdictions in order to reduce the risks to the Company inherent in defined benefit plans.
Environmental Risk	
Environmental risk is the risk of direct or indirect loss to the Company's financial results or operations or reputation resulting from the impact of environmental issues or costs associated with changes in environmental laws and regulations.	The Company endeavours to respect the environment and to take a balanced and environmentally sustainable approach to conducting business. The Company will not knowingly acquire investments with significant environmental risks. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of investment properties, loans secured by real property and investments in equity and fixed income securities. These policies are approved by its Board of Directors and are reviewed annually. One of the Company's subsidiaries, GWL Realty Advisors Inc. (GWLRA) has an Environmental Management Plan (EMP) created to ensure compliance with applicable environmental legislation and outline best practice guidelines and procedures in responsible management practices designed to protect and preserve the environment and provide oversight on environmental matters on properties owned by the Company (Great-West Life, London Life and Canada Life) and third-party clients. The properties for which GWLRA provides property management services are also administered under the EMP to ensure compliance with applicable federal, provincial and municipal environmental legislation, by laws, codes, policies and undertaking a leadership position with their clients and within the real estate industry. GWLRA carries out ongoing reviews of environmental objectives, programs, policies and procedures to ensure consistency, effectiveness, quality and application, and establishes and maintains best practices through corporate programs and initiatives and emphasizes environmental awareness among staff, service providers and clients. To quantify efforts in sustainability GWLRA has developed a Corporate Social Responsibility Scorecard that reports on greenhouse gas emissions for their corporate and regional offices across Canada.

Environmental Risk (cont'd)	
	Commercial assets under management are monitored nationally and measured for environmental performance, which includes GHG emissions, waste diversion and water; monitoring is carried out by a third-party environmental consultant. GWLRA's property management and leasing functions are conducted in accordance with environmental laws and prudent industry practices. The Company strives to reduce its environmental footprint through energy conservation and waste reduction that entails recycling programs, periodic waste diversion audits and performance benchmarking. For more information on the Company's environmental policies and initiatives, refer to the Public Accountability Statement available on the Canadian operating subsidiaries websites. The Company monitors relevant emerging issues, regulations and requirements through collaboration with its environmental and legal consultants. The Environmental Committee of GWLRA reviews policies and procedures on an annual basis and revises established policies and guidelines as required.

ACCOUNTING POLICIES

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. The estimation of insurance and investment contract liabilities relies upon investment credit ratings. The Company's practice is to use third-party independent credit ratings where available.

The significant accounting estimates include the following:

Fair Value Measurement

Financial and other instruments held by the Company include portfolio investments, various derivative financial instruments, debentures and other debt instruments.

Financial instrument carrying values reflect the liquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

In accordance with IFRS 7, *Financial Instruments*: *Disclosure*, the Company's assets and liabilities recorded at fair value have been categorized based upon the following fair value hierarchy:

Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Refer to note 9 to the Company's annual consolidated financial statements for disclosure of the Company's financial instruments fair value measurement at December 31, 2013.

Fair values for bonds classified as fair value through profit or loss or available-for-sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where market value cannot be measured reliably, fair value is estimated to be equal to cost. Market values for investment properties are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Investment impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers 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. 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 market value of an investment is not by itself 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 must be taken into consideration when evaluating impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs are recorded to adjust the carrying value to the estimated realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish the estimated realizable value. For impaired available-for-sale loans, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income (loss) 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 income, therefore a reduction due to impairment of assets will be recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Goodwill and intangibles impairment testing

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

Goodwill has been allocated to cash generating units (CGU), representing the lowest level in which goodwill is monitored for internal reporting purposes. Goodwill is tested for impairment by comparing carrying value of the CGU groups 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 costs to sell and value-in-use, which is generally calculated using the present value of estimated future cash flows expected to be generated.

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 the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining the amount of the liabilities to make appropriate provisions for the Company'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/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.

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

Mortality – A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company’s experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Mortality improvement has been projected to occur for the next 25 years. In addition, appropriate provisions have been made for future mortality deterioration on term insurance. A 2% increase in the best estimate assumption would cause a decrease in net earnings of approximately $217 million.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 2% decrease in the best estimate assumption would cause a decrease in net earnings of approximately $272 million.

Morbidity – The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption, a 5% decrease in best estimate termination assumptions for claim liabilities and a 5% increase in best estimate incidence assumptions for active life liabilities would cause a decrease in net earnings of approximately $208 million.

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

Investment returns – The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine insurance and investment contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under a number of interest rate scenarios (including increasing, decreasing and fluctuating rates) is done to assess reinvestment risk. The total provision for interest rates is sufficient to cover a broader or more severe set of risks than the minimum arising from the current Canadian Institute of Actuaries prescribed scenarios.

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

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

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

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

- The effect of an immediate 1% increase in the low and high end of the range of interest rates recognized in the provisions would be to decrease these insurance and investment contract liabilities by approximately $33 million causing an increase in net earnings of approximately $12 million.
- The effect of an immediate 1% decrease in the low and high end of the range of interest rates recognized in the provisions would be to increase these insurance and investment contract liabilities by approximately $481 million causing a decrease in net earnings of approximately $322 million.

In addition to interest rates, the Company is also exposed to movements in equity markets.

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities; for example segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate.

- A 10% increase in equity markets would be expected to additionally decrease non-participating insurance and investment contract liabilities by approximately $43 million, causing an increase in net earnings of approximately $34 million.
- A 10% decrease in equity markets would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $192 million, causing a decrease in net earnings of approximately $150 million.

The best estimate return assumptions for equities are primarily based on long-term historical averages. Changes in the current market could result in changes to these assumptions and will impact both asset and liability cash flows.

- A 1% increase in the best estimate assumption would be expected to decrease non-participating insurance contract liabilities by approximately $458 million causing an increase in net earnings of approximately $353 million.
- A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $514 million causing a decrease in net earnings of approximately $392 million.

Expenses – Contractual policy expenses (e.g. sales commissions) and tax expenses are reflected on a best estimate basis. Expense studies for indirect operating expenses are updated regularly to determine an appropriate estimate of future operating expenses for the liability type being valued. Improvements in unit operating expenses are not projected. An inflation assumption is incorporated in the estimate of future operating expenses consistent with the interest rate scenarios projected under CALM as inflation is assumed to be correlated with new money interest rates. A 5% increase in the best estimate maintenance unit expense assumption would cause a decrease in net earnings of approximately $76 million.

Policy termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company has significant exposures in respect of the T-100 and Level Cost of Insurance Universal Life products in Canada and policy renewal rates at the end of the term for renewable term policies in Canada and Reinsurance. Industry experience has guided our assumptions for these products as our own experience is very limited. A 10% adverse change in the best estimate policy termination and renewal assumptions would cause a decrease in net earnings of approximately $466 million.

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

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

Income taxes – The Company is subject to income tax laws in various jurisdictions. The Company's operations are complex and related income tax interpretations, regulations and legislation that pertain to its activities are subject to continual change. As multinational life insurance companies, the Company's primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the *Income Tax Act (Canada)* for purposes of determining the amount of the companies' income that will be subject to tax in Canada.

The Company utilizes tax planning strategies involving multiple jurisdictions to obtain tax efficiencies. The Company continually assesses the uncertainty associated with these strategies and holds an appropriate level of provisions for uncertain income tax positions. Accordingly, the provision for income taxes represents management's interpretation of the relevant income tax laws and its estimate of current and deferred income tax implications of the transactions and events during the period. Deferred income tax assets and liabilities are recorded based on expected future income tax rates and management's assumptions regarding the expected timing of the reversal of temporary differences. The Company has substantial deferred income tax assets. The recognition of deferred income tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

The audit and review activities of the Canada Revenue Agency and other jurisdictions' tax authorities affect the ultimate determination of the amounts of income taxes payable or receivable, deferred income tax assets or liabilities and income tax expense. Therefore, there can be no assurance that income taxes will be payable as anticipated and/or the amount and timing of receipt or use of the income tax related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived income tax issues and have increased the resources they put to these efforts.

Employee future benefits – The Company's subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. For most plans, active plan participants share in the cost of benefits through employee contributions in respect of current service. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. Effective January 1, 2013, both the Great-West Life Assurance Company Canadian Employees' Pension Plan and the London Life Staff Pension Plan added a defined contribution provision to their plans. All new hires after this date are eligible only for defined contribution benefits. This change is consistent with the benefit provisions of the majority of the Company's pension plans for new entrants and will continue to reduce the Company's defined benefit plan exposure in future years. The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. For further information on the Company's pension plans and other post-employment benefits refer to note 26 to the Company's 2013 annual consolidated financial statements.

For the Company's defined benefit plans, the service costs and net interest costs are recognized in the Consolidated Statements of Earnings. Service costs include current service cost, administration expenses, past service costs and the impact of curtailments and settlements. Re-measurements of the defined benefit liability (assets) due to asset returns less (greater) than interest income, actuarial losses (gains) and changes in the asset ceiling are recognized immediately in the Consolidated Statements of Comprehensive Income.

Accounting for pension and other post-employment benefits requires estimates of expected increases in compensation levels, indexation of certain pension payments, trends in health care costs, the period of time over which benefits will be paid, as well as the appropriate discount rate for defined benefit obligations and plan assets. These assumptions are determined by management using actuarial methods and are reviewed and approved annually. Emerging experience that differs from the assumptions will be revealed in future valuations and will affect the future financial position of the plans and net periodic benefit costs.

Actuarial assumptions - employee future benefits
At December 31

	Defined benefit pension plans		Other post-employment benefits	
	2013	2012	**2013**	2012
Actuarial assumptions used to determine benefit cost				
Discount rate	**4.4 %**	5.1 %	**4.2 %**	5.1 %
Expected rate of compensation increase	**3.1 %**	3.5 %	**-**	-
Future pension increases	**1.9 %**	2.0 %	**-**	-
Actuarial assumptions used to determine defined benefit obligation				
Discount rate	**4.7 %**	4.4 %	**4.8 %**	4.2 %
Rate of compensation increase	**3.3 %**	3.1 %	**-**	-
Future pension increases	**1.8 %**	1.9 %	**-**	-
% of defined benefit obligation subject to future pension increases	**54.0 %**	38.0 %	**-**	-
Medical cost trend rates:				
Initial medical cost trend rate			**6.4 %**	6.5 %
Ultimate medical cost trend rate			**4.5 %**	4.5 %
Year ultimate trend rate is reached			**2024**	2024

Actuarial assumptions - The period of time over which benefits are assumed to be paid is based on best estimates of future mortality, including allowances for mortality improvements. This estimate is subject to considerable uncertainty, and judgment is required in establishing this assumption. As mortality assumptions are significant in measuring the defined benefit obligation, the mortality assumptions applied by the Company take into consideration such factors as age, gender and geographic location, in addition to an estimation of future improvements in longevity.

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

As these assumptions relate to factors that are long-term in nature, they are subject to a degree of uncertainty. Differences between actual experience and the assumptions, as well as changes in the assumptions resulting from changes in future expectations, result in increases or decreases in the pension and post-employment benefits expense and defined benefit obligation in future years. There is no assurance that the plans will be able to earn assumed rates of return, and market driven changes to assumptions could impact future contributions and expenses.

The following table indicates the impact of changes to certain key assumptions related to pension and post-employment benefits.

Impact of a change of 1.0% in actuarial assumptions on defined benefit obligation	**1% increase**		**1 % decrease**	
	2013	**2012**	**2013**	**2012**
Defined benefit pension plans:				
Impact of a change to the discount rate	$ (780)	$ (551)	$ 1,016	$ 705
Impact of a change to the rate of compensation	246	124	(196)	(109)
Impact of a change to the rate of inflation	620	289	(487)	(242)
Other post-employment benefits:				
Changes to assumed medical cost trend rates				
Impact on defined benefit obligation	33	40	(28)	(33)
Impact of a change to the discount rate on defined benefit obligation	(42)	(48)	51	59

To measure the impact of a change in an assumption, all other assumptions were held constant. It would be expected that there would be interaction between at least some of the assumptions.

Funding - The Company's subsidiaries have both funded and unfunded pension plans as well as other post-employment benefit plans which are unfunded. The Company's funded pension plans are funded to or above the amounts required by relevant legislation. During the year, the Company contributed $152 million ($112 million in 2012) to the pension plans and made benefit payments of $17 million ($17 million in 2012) for post-employment benefits. The Company expects to contribute $148 million to the benefit pension plans and make benefit payments of $20 million for post-employment benefits in 2014.

International Financial Reporting Standards

Due to the evolving nature of IFRS, there are a number of IFRS changes that impacted the Company in 2013 as well as standards that could impact the Company in subsequent periods. The Company actively monitors future IFRS changes proposed by the International Accounting Standards Board (IASB) to assess if the changes to the standards may have an impact on the Company's results or operations.

New and revised accounting standard changes were adopted in 2013 with the related impact are set out in the following table:

New / Revised Standard	Summary of Accounting Change
IAS 19R - Employee Benefits	The Company has adopted IAS 19R, *Employee Benefits*. The amendments made to IAS 19R 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 will reflect the funded status (deficit) of the pension plans (less any asset ceilings) on the Consolidated Balance Sheets. In addition, all service costs including curtailments and settlements are recognized immediately in profit or loss. 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 expense (income). This discount rate for the net interest expense (income) is determined by reference to market yields at the beginning of the year on high quality corporate bonds. Further, the 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 Statement of Consolidated Operations (service costs and net interest costs) and in the Consolidated Statements of Comprehensive Income (re-measurements). Disclosures relating to retirement benefit plans include discussions on the Company's pension plan risk, sensitivity analysis, an explanation of items recognized in the consolidated financial statements and descriptions of the amount, timing and uncertainty on the Company’s future cash flows. In accordance with the transitional provisions in IAS 19R, this change has been applied retrospectively, which resulted in a decrease to opening equity at January 1, 2012 of $392 million (decrease of $352 million to shareholders’ equity and $40 million to participating account surplus) with an additional decrease to opening equity of $183 million (decrease of $169 million to shareholders’ equity and $14 million to participating account surplus) at January 1, 2013. For further information on the adoption of IAS19R, please refer to note 3 to the December 31, 2013 consolidated financial statements.

IFRS 10 - Consolidated Financial Statements and IFRS 12 - Disclosure of Interests in Other Entities	In accordance with IFRS 10, *Consolidated Financial Statements*, the Company has evaluated whether or not to consolidate an entity based on the definition of control within. The standard has defined control as dependent on the power of the investor to direct the 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. In conjunction with the adoption of IFRS 10, the Company has 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 amount of disclosure concerning the subsidiaries and investment in associates by the Company and has not impacted the financial results of the Company. Aside from the following discussion on the Company's segregated funds for the risk of policyholders and the Capital Trust Securities, the adoption of these standards did not impact the consolidated financial statements of the Company. The Company 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. The Company will continue to present the segregated funds for the risk of policyholders as equal and offsetting amounts with assets and liabilities within the Consolidated Balance Sheets and has expanded disclosure on the nature of these entities and the related risks. In addition, in circumstances where the segregated funds is invested in structured entities and is deemed to control this entity, the Company 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 Company; however it resulted in an increase to segregated funds for the risk of policyholders as equal and offsetting amounts within assets and liabilities of $403 million at January 1, 2012 and $484 million at December 31, 2012 on the Consolidated Balance Sheets. 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. The Company will continue to monitor these and other IFRS 10 developments. See note 15 for additional information of the presentation and disclosure of these structures. Canada Life Capital Trust and Great-West Capital Trust (the capital trusts) were consolidated by the Company under IAS 27, *Consolidated and Separate Financial Statements*. The capital trusts will no longer be consolidated in the Company's financial statements as the Company'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 Company, however the deconsolidation resulted in an increase to bonds of $282 million at January 1, 2012 and $45 million at December 31, 2012, both with corresponding increases to the capital trust debenture liability on the Consolidated Balance Sheets. For further information on the adoption of IFRS 10, please refer to notes 3 and 15 to the December 31, 2013 consolidated financial statements.

IFRS 11 - Joint Arrangements	The Company has adopted the guidance in IFRS 11, *Joint Arrangements*, which separates jointly controlled entities between joint operations and joint ventures. The standard eliminated the option of using proportionate consolidation of accounting for the interests in joint ventures with requiring entities to use the equity method of accounting for interests in joint ventures. Where the Company is involved in joint operations, it recognizes its share of assets, liabilities and net earnings. The adoption of this standard has had no impact on the Company.
IFRS 13 - Fair Value Measurement	The Company has adopted the guidance of IFRS 13, *Fair Value Measurement* to increase consistency and comparability of fair value measurements through the use of a "fair value hierarchy". The inputs used in valuation techniques are categorized into three levels giving the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The adoption of this standard relates primarily to disclosure and has not impacted the financial results of the Company.
IAS 1 - Presentation of Financial Statements	The Company has adopted the guidance of the amended IAS 1, *Presentation of Financial Statements*. Under the amended standard, OCI is classified by nature and grouped between items that will be reclassified subsequently to profit or loss (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 Company.
IFRS 7 - Financial Instruments	The Company has adopted the guidance in the amendments to IFRS 7, *Financial Instruments*, 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 Company.

IFRS that may change subsequent to 2013 and could impact the Company are set out in the following table:

New / Revised Standard	Summary of Future Changes
IFRS 4 - Insurance Contracts	The IASB issued a revised IFRS 4, *Insurance Contracts* exposure draft proposing changes to the accounting standard for insurance contracts in June 2013. 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 the Company's current accounting and actuarial practices under the Canadian Asset Liability Method (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 (FVTPL). The IASB's revised proposals will also affect the calculation of insurance contract liabilities, and proposed changes to the presentation of insurance contract revenue being recognized during the period and disclosure within the financial statements. On October 25, 2013 the Company submitted a comment letter responding to the IASB exposure draft addressing the question of whether users of the financial statements will obtain an appropriate 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, the Company 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?"* The Company continues to actively monitor developments in this area. The Company will continue to measure insurance contract liabilities under current accounting and actuarial policies, including CALM, until a new IFRS for insurance contract measurement is issued and effective.

<table>
<tr><td>IFRS 9 - Financial Instruments</td><td>The IASB issued IFRS 9, Financial Instruments in 2010 to replace IAS 39, Financial Instruments. The IASB plans to make further changes in financial instruments accounting, and has separated its project to amend IFRS 9 into three phases: classification and measurement, impairment methodology and hedge accounting.

• The IASB released a proposal to amend the classification and measurement provisions of IFRS 9 with an additional limited amendment to the standard introducing a new category for classification of certain financial assets of fair value through other comprehensive income (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 Company is evaluating the impact this standard will have on the presentation of its financial statements.

The full impact of IFRS 9 on the Company 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 Company continues to actively monitor this standard in conjunction with the developments to IFRS 4.</td></tr>
<tr><td>IAS 17 - Leases</td><td>The IASB issued a revised exposure draft in May 2013 amending the May 2010 proposal of a new accounting model for leases where both lessees and lessors would record the assets and liabilities on the balance sheet at the present value of the lease payments arising from all lease contracts with a maximum possible term of more than 12 months.

The new classification would be the right-of-use model, replacing the operating and finance lease accounting models that currently exist. The revised exposure draft includes guidance for identifying which contract is a lease and provides separate approaches for the recognition, measurement and presentation of expenses and cash flows arising from a lease depending on the amount of the economic benefit of the leased asset to be used by the lessee.

The full impact of adoption of the proposed changes will be determined once the final lease standard is issued.</td></tr>
<tr><td>IAS 18 - Revenue Recognition</td><td>The IASB issued a second exposure draft in November 2011, which proposed a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer.

The full impact of adoption of the proposed changes will be determined once the final revenue recognition standard is issued, which is targeted for release in 2014.</td></tr>
<tr><td>IFRIC 21 - Levies</td><td>The IASB issued IFRIC 21, Levies, on the accounting for levies imposed by governments effective for annual periods beginning January 1, 2014. The interpretation considered the guidance in IAS 37, Provisions, Contingent Liabilities and Contingent Assets for the recognition of a levy liability due to an obligating event described in the legislation that brings about payment of the levy.

The Company is evaluating the impact this standard will have on the presentation of its financial statements.</td></tr>
<tr><td>IAS 32 - Financial Instruments: Presentation</td><td>Effective January 1, 2014, the Company 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.

These amendments are not expected to have an impact on the financial results or financial statement presentation of the Company.</td></tr>
</table>

IAS 36 - Impairment of Assets	Effective January 1, 2014, the Company will adopt the guidance in the amendments to IAS 36, *Impairment of Assets*. The amendment clarifies the disclosure about the recoverable amount, in accordance with IFRS 13, *Fair Value Measurement*, of impaired assets if that amount is based on fair value less costs of disposal. The Company is evaluating the impact this standard will have on its financial statement disclosures.

SEGMENTED OPERATING RESULTS

The consolidated operating results of Lifeco including the comparative figures are presented on an IFRS basis after capital allocation. The comparative operating results have been restated for the respective impact of new and revised IFRS effective during the year including IAS 19R. Consolidated operating results for Lifeco comprise the net earnings of The Great-West Life Assurance Company (Great-West Life), Canada Life Financial Corporation (CLFC), London Life Insurance Company (London Life), Great-West Life & Annuity Insurance Company (Great-West Financial), Putnam Investments, LLC (Putnam) and Irish Life Group Limited (Irish Life), together with Lifeco's corporate results.

For reporting purposes, the consolidated operating results are grouped into four reportable segments -- Canada, United States, Europe and Lifeco Corporate -- reflecting geographic lines as well as the management and corporate structure of the companies.

CANADA

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

BUSINESS PROFILE

INDIVIDUAL INSURANCE

In Canada, Individual Insurance consists of Individual Life Insurance and Living Benefits. Products and services are distributed through diverse, complementary channels: financial security advisors and brokers associated with Great-West Life; financial security advisors associated with London Life's Freedom 55 Financial™ division and the Wealth & Estate Planning Group; and the distribution channels Canada Life supports, including independent advisors associated with managing general agencies, as well as national accounts, including Investors Group.

The various distribution channels are accessed through distinct product labels offered by Great-West Life, London Life, and Canada Life. Unique products and services are offered to meet the needs of each distribution channel to allow the Company to maximize opportunities while minimizing channel conflict.

WEALTH MANAGEMENT

The Wealth Management business unit consists of Individual Retirement & Investment Services (IRIS), and Group Retirement Services (GRS) product lines. The Company utilizes diverse, complementary distribution channels and is a leader in Canada in all Wealth Management product lines. Products are distributed through the same channels as described above for Individual Insurance as well as independent brokers, consultants and direct business for our GRS business.

The individual lines of business access the various distribution channels through distinct product labels offered by Great-West Life, London Life, Canada Life and Quadrus Investment Services Ltd. (Quadrus). Unique products and services are offered to meet the needs of each distribution channel to allow the Company to maximize opportunities while minimizing channel conflict.

GROUP INSURANCE
In Canada, the Company offers effective benefit solutions for large and small employee groups. Through the Company's extensive network of Group sales offices and Sales and Marketing Centres located across the country, it distributes its products through financial security advisors, brokers and consultants. The Company offers a wide range of Group products and services including life, death and dismemberment, disability, health and dental protection.

Through its Canada Life subsidiary, the Company writes creditor and direct marketing business, offering effective benefit solutions for large financial institutions, credit card companies, alumni and association groups. Canada Life is a recognized leader in the creditor insurance business with $2.1 billion in annual direct premium.

MARKET OVERVIEW

PRODUCTS AND SERVICES

Individual Insurance
The Company provides an array of individual insurance products that are distributed through multiple sales channels. Products are marketed under the Great-West Life, London Life and Canada Life brands.

MARKET POSITION[1]	PRODUCTS AND SERVICES	DISTRIBUTION
• Manages largest portfolio of life insurance in Canada as measured by premium • Pre-eminent provider of individual disability and critical illness insurance with 29% market share of in-force premium	***Individual Life Insurance*** • Term Life • Universal Life • Participating Life ***Living Benefits*** • Disability • Critical Illnesses	**Associated with:** ***Great-West Life Distribution*** • 1,723 Great-West Life financial security advisors • 2,385 advisors associated with a number of intercorporate arrangements • 6,238 independent brokers ***London Life Distribution*** • 3,559 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors ***Canada Life Distribution*** • 8,688 independent brokers associated with 49 Managing General Agencies (MGAs) • 1,680 advisors associated with 17 national accounts • 3,488 Investors Group consultants who actively sell Canada Life products • 210 direct brokers and producer groups

(1) Based on most recently available market information.

Wealth Management
The Company provides an array of savings and income products that are distributed through multiple sales channels. Products are marketed under the Great-West Life, London Life, Canada Life and Quadrus brands.

The Company offers a wide range of segregated funds through its multiple distribution channels including 91 London Life Segregated funds to individual Freedom 55 Financial™ clients, 79 Canada Life segregated funds to individual Canada Life clients, 84 Great-West Life segregated funds to individual Great-West Life clients and 232 segregated funds to Envision Group Capital Accumulation Fund clients.

Quadrus offers 49 mutual funds under the Quadrus Group of Funds™ brand and over 3,500 third-party mutual funds. Mackenzie Financial Corporation, a member of the Power Financial Corporation group of companies, administers the Quadrus Group of Funds.

MARKET POSITION[(1)]	PRODUCTS AND SERVICES		DISTRIBUTION

• 27% market share of individual segregated funds
• 18% market share of group capital accumulation plans
	Group Retirement Services
	• Group Capital Accumulation Plans
	• Non-registered savings programs
	• Deferred profit sharing plans
	• Defined contribution pension plans
	• Group RRSPs & TFSAs
	Invested in:
	  • Segregated funds
	  • Guaranteed investment options
	  • Single company stock
	
	• Retirement Income Plans
	  • Payout annuities
	  • Deferred annuities
	  • Retirement income funds
	  • Life income funds
	
	• Investment management services only plans
	Invested in:
	  • Segregated Funds
	  • Guaranteed Investment options
	  • Securities
		Individual Retirement & Investment Services
		• Savings plans
		  • Registered Retirement savings plans
		  • Non-registered savings programs
		  • TFSAs
		Invested in:
		  • Segregated funds
		  • Mutual funds
		  • Guaranteed investment options
		
		• Retirement Income Plans
		  • Segregated funds with GMWB rider
		  • Retirement income funds
		  • Life income funds
		  • Payout annuities
		  • Deferred annuities
		
		• Residential mortgages
		• Banking products
			Associated with:
			Great-West Life Distribution
			• 1,723 Great-West Life financial security advisors
			• 2,385 advisors associated with a number of intercorporate arrangements
			• 6,238 independent brokers
			
			London Life Distribution
			• 3,559 Freedom 55 Financial and Wealth & Estate Planning Group financial security advisors
			
			Canada Life Distribution
			• 8,688 independent brokers associated with 49 MGAs
			• 1,680 advisors associated with 17 national accounts
			• 3,488 Investors Group consultants who actively sell Canada Life products
			• 210 direct brokers and producer groups
			
			Quadrus Investment Services Ltd. (also included in Great-West Life and London Life advisor counts):
			• 3,943 investment representatives
			
			Group Retirement Services
			• Benefits Consultants, Brokers and Affiliated advisors (as above)

(1) Based on most recently available market information.

Group Insurance

The Company provides an array of life, health and creditor insurance products that are distributed primarily through Group sales offices across the country.

MARKET POSITION[(1)]	PRODUCTS AND SERVICES	DISTRIBUTION
• Employee benefits to over 30,000 plan sponsors • 22% market share for employee/employer plans • Leading market share for creditor plans	***Life and Health*** • Life • Disability • Critical Illness • Accidental death & dismemberment • Dental • Expatriate coverage • Extended health care ***Creditor*** • Creditor life • Creditor disability • Creditor job loss • Creditor critical illness • Creditor Credit Card Outstanding Balance	• 112 account managers and sales staff located in 17 Group Offices • 103 Regional Employee Benefits Managers and Selectpac Specialists located in Sales and Marketing Centres

(1) Based on most recently available market information.

COMPETITIVE CONDITIONS

Individual Insurance

The individual insurance marketplace is highly competitive. Competition focuses on service, technology, product features, price, and financial strength, as indicated by ratings issued by nationally recognized agencies.

Wealth Management

The wealth management marketplace is very competitive. The Company's competitors include mutual fund companies, insurance companies, banks and investment advisors, as well as other service and professional organizations. Competition focuses on service, variety of investment options, investment performance, product features, price, and financial strength, as indicated by ratings issued by nationally recognized agencies.

Group Insurance

There are three large group insurance carriers in Canada with significant market positions. The Company has a 22% market share. There are a number of other smaller companies operating nationally and several regional and niche competitors. The group insurance market is highly competitive. A strong market share position is a distinct advantage for competing successfully in the Canadian group insurance market.

Within the small and mid-sized case markets, there are significant pricing pressures as employers seek to find ways to counter the inflationary costs of health care. A company with low cost operations, extensive distribution networks, strong service capability and cost containment product offerings will have a competitive advantage in these markets. In the larger case market, while low cost is a factor, service excellence and cost containment product innovations are equally important. In this market, a company that can effectively develop and implement innovative products and efficient administrative processes through the use of new technologies to meet emerging client requirements will differentiate itself and achieve competitive advantage.

Selected consolidated financial information - Canada

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Premiums and deposits	**$ 5,366**	$ 5,078	$ 5,786	**$ 21,299**	$ 20,761
Sales[1]	**2,852**	2,389	2,917	**10,800**	9,870
Fee and other income[2]	**330**	321	302	**1,276**	1,178
Net earnings - common shareholders	**270**	332	263	**1,148**	1,038
Total assets[3]	**$ 129,983**	$ 126,170	$ 121,471		
Proprietary mutual funds net assets	**4,114**	3,875	3,585		
Total assets under management	**134,097**	130,045	125,056		
Other assets under administration	**14,607**	13,867	13,184		
Total assets under administration	**$ 148,704**	$ 143,912	$ 138,240		

(1) Sales (a non-IFRS measure) results in 2012, have been restated to conform with changes in methodology implemented in 2013 which improve consistency across the Company's platforms and with industry standards for sales measurement.
(2) During the year, the Company reclassified comparative figures for presentation adjustments.
(3) Comparative figures have been restated for the retrospective impact of IFRS 10, *Consolidated Financial Statements*.

Net earnings - common shareholders	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Individual Insurance	**$ 73**	$ 102	$ 11	**$ 302**	$ 187
Wealth Management	**93**	114	69	**387**	299
Group Insurance	**97**	115	136	**425**	439
Corporate	**7**	1	47	**34**	113
Net earnings	**$ 270**	$ 332	$ 263	**$ 1,148**	$ 1,038

2013 DEVELOPMENTS

- Premiums and deposits for the twelve months ended December 31, 2013 were $21,299 million, compared to $20,761 million in 2012. Premiums and deposits in the fourth quarter of 2013 were $5,366 million, a decrease of $420 million compared to the fourth quarter of 2012**.** The fourth quarter of 2012 had a large GRS case premium that did not repeat in the fourth quarter of 2013.
- Sales for the twelve months ended December 31, 2013 were $10,800 million, compared to $9,870 million in 2012. Sales in the fourth quarter of 2013 were $2,852 million, a decrease of $65 million compared to the fourth quarter of 2012 primarily reflecting lower Group large case sales in the fourth quarter of 2013.
- For the twelve months ended December 31, 2013, fee and other income was $1,276 million, an increase of $98 million from the same period last year. Fee and other income was $330 million in the fourth quarter of 2013, an increase of $28 million compared to the fourth quarter of 2012 reflecting higher assets under management.
- Net earnings for the twelve months ended December 31, 2013 were $1,148 million, up 11% from the same period last year. Net earnings attributable to common shareholders for the fourth quarter of 2013 were $270 million compared to $263 million for the fourth quarter of 2012.
- Individual Insurance continues to review rates on its products and adjust pricing in response to economic conditions across all product lines. Reductions to term 20 rates were announced in November 2013, while price reductions for term 10, level cost of insurance universal life, and certain Living Benefits products were announced in January 2014.
- Wealth Management enhanced the services provided by the Group Retirement Services area by allowing members to self register within group plans and by launching *smartPATH 2.0*, an interactive online resource designed to help employers better engage their employees in retirement education, planning and saving.
- Group plan member services were enhanced in 2013 with the introduction of GroupNet Text, which provides instant access to benefit details on mobile devices. Plan members can now check their dental, vision and paramedical balances by texting, using the GroupNet smartphone app or visiting the secure GroupNet website. GroupNet for Plan Members surpassed a significant milestone with over one million plan members now enrolled.
- Great-West Life introduced a new approach to prescription drug management that focuses on helping plan members with diabetes better manage their health outcomes. Working with a national pharmacy, the Company offers a diabetes management program to help eligible plan members manage their condition through blood sugar monitoring, medication reviews and counseling, all of which may help in lowering their risk of complications.
- Work continued on offering more online, convenient ways of providing group benefits services while reducing paper consumption. Building on our pioneering work with *eClaims*, recent initiatives included electronic plan member eWelcome packages and using imaging technology in our disability claims offices to enhance case management and customer service.

- As part of its support for the National Standard of Canada on Psychological Health and Safety in the Workplace, the Great-West Life Centre for Mental Health in the workplace held numerous forums and roundtables in 2013 for key professional groups. These events explored the benefits of workplace psychological health and safety, and free tools available to help implement the Standard. The Centre also introduced another new free program, *TakeYourBreak*, which offers short, relaxing and rejuvenating activities aimed at improving mental health at work.

BUSINESS UNITS - CANADA

INDIVIDUAL INSURANCE

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec.31 2013	Sept. 30 2013	Dec.31 2012	**Dec.31 2013**	Dec.31 2012
Premiums and deposits	**$ 1,112**	$ 1,035	$ 1,037	**$ 4,177**	$ 3,926
Sales[(1)]	**144**	120	133	**479**	480
Net earnings	**73**	102	11	**302**	187

(1) Sales (a non-IFRS measure) results in 2012, have been restated to conform with changes in methodology implemented in 2013 which improve consistency across the Company's platforms and with industry standards for sales measurement.

Premiums and deposits
Individual Insurance premiums in the fourth quarter of 2013 increased by $75 million to $1,112 million compared to the same quarter last year. Individual Life premiums for the quarter increased by $78 million to $1,035 million compared to the same quarter last year, primarily due to a 9% increase in participating life premiums. Living Benefits premiums for the quarter decreased by $3 million to $77 million compared to the same period last year.

For the twelve months ended December 31, 2013, premiums increased by 6% to $4,177 million compared to the same period last year. Individual Life premiums increased by $247 million to $3,855 million compared to the same period last year. Living Benefits premiums increased by $4 million to $322 million compared to the same period last year.

Individual Insurance premiums in the fourth quarter of 2013 increased by $77 million compared to the previous quarter, primarily due to a 12% increase in participating life insurance premiums.

Sales
Individual Insurance sales in the fourth quarter of 2013 increased by $11 million to $144 million compared to the same quarter last year. Individual Life sales increased by $14 million to $133 million. The largest contributor was a 26% increase in participating life insurance sales. Sales of Living Benefits of $11 million were $3 million lower than in the same quarter last year.

For the twelve months ended December 31, 2013, Individual Insurance sales were comparable to the same period last year. Individual Life sales increased by $2 million to $436 million, primarily due to a 10% increase in participating life insurance sales, offset by a 34% decrease in universal life sales. Sales of Living Benefits of $43 million were $3 million lower than the same period last year.

Individual Insurance sales in the fourth quarter of 2013 increased by $24 million compared to the previous quarter. Individual Life sales increased by $23 million, primarily due to a 28% increase in participating life insurance sales. Living Benefits sales were $1 million higher compared to the previous quarter.

Net earnings
Net earnings for the fourth quarter of 2013 increased by $62 million to $73 million compared to the same quarter of 2012. This increase is primarily driven by lower new business strain resulting from price increases and higher yields projected on assets backing new business, favourable investment experience and higher contributions from insurance contract liability basis changes.

For the twelve months ended December 31, 2013, net earnings increased by $115 million to $302 million compared to the same period last year. This increase is primarily driven by lower new business strain, favourable investment experience and higher contributions from insurance contract liability basis changes, partially offset by less favourable mortality and policyholder behaviour experience.

Net earnings in the fourth quarter of 2013 decreased by $29 million compared to the previous quarter. This decrease is primarily due to less favourable investment and morbidity experience and lower contributions from insurance contract liability basis changes.

The net loss attributable to the participating account was $144 million in the fourth quarter of 2013 compared to net earnings of $206 million in the fourth quarter of 2012. Both years include the impact of revisions to the participating account litigation provision. Excluding this impact from both years, net earnings for the fourth quarter of 2013 were $16 million higher than the same period last year, primarily due to higher contributions from insurance contract liability basis changes and lower new business strain, partially offset by lower net experience gains.

For the twelve months ended December 31, 2013, the net loss attributable to the participating account was $92 million compared to net earnings of $269 million for the same period in 2012. Excluding the impact of the revised litigation provision in both years, net earnings for 2013 were $5 million higher than 2012, primarily due to lower new business strain, partially offset by lower contributions from insurance contract liability basis changes.

The net earnings attributable to the participating account decreased by $162 million from the third quarter of 2013. Excluding the impact of the revised litigation provision, net earnings increased by $64 million, primarily due to lower new business strain and higher contributions from insurance contract liability basis changes.

OUTLOOK – INDIVIDUAL INSURANCE
Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The Individual Insurance division delivered solid results in 2013. The Company's reputation for strength and stability, combined with prudent business practices as well as depth and breadth of our distribution channels positions the organization well for 2014 and beyond. We have reviewed our strategies and re-aligned aspects of our organization with the goal of achieving superior organic growth from profitable revenues.

In 2014, the Company will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term financial security regardless of market fluctuations. This approach is beneficial to the maintenance and improvement of the persistency of existing business as well as helping advisors attract new clients to the organization. A key distribution strategy is to maximize use of common tools, processes and support, while providing unique support to specific segments of advisors where appropriate.

The Company's broad spectrum of distribution associates, including exclusive and independent channels, and multiple brands provides important strategic advantages within the Canadian market. The Company will continue to competitively develop, price and market its comprehensive range of Individual Insurance products while maintaining our focus on sales and service support for large cases in all channels.

The Company's diversified offering of Individual Insurance products including participating whole life, term, universal life, disability, and critical illness insurance, combined with a commitment to new business service will position it to continue to achieve market leading sales in 2014. The Company will continue to enhance our suite of product solutions and services, of which we are a leading provider and we will continue to focus on growing our business organically by constantly improving our service to clients.

Operational expense management continues to be critically important to delivering strong financial results. This will be achieved through disciplined expense controls and effective development and implementation of strategic investments. Management has identified a number of areas of focus for these investments to facilitate the objective of organic growth.

WEALTH MANAGEMENT

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec.31 2013	Sept. 30 2013	Dec.31 2012	**Dec.31 2013**	Dec.31 2012
Premiums and deposits	**$ 2,368**	$ 2,191	$ 2,869	**$ 9,619**	$ 9,382
Sales[(1)]	**2,592**	2,133	2,630	**9,665**	8,867
Fee and other income[(2)]	**281**	271	253	**1,075**	983
Net earnings	**93**	114	69	**387**	299

(1) Sales (a non-IFRS measure) results in 2012, have been restated to conform with changes in methodology implemented in 2013 which improve consistency across the Company's platforms and with industry standards for sales measurement.
(2) During the year, the Company reclassified comparative figures for presentation adjustments.

Premiums and deposits
Wealth Management premiums and deposits decreased in the fourth quarter of 2013 by $501 million to $2,368 million compared to the same quarter last year. This result was primarily driven by lower premiums into the GMWB retail segregated fund product and premiums in the fourth quarter of 2012 were positively impacted by a significant group premium into group capital accumulation plan (GCAP) products. These impacts were partially offset by higher single premium group annuity premiums.

For the twelve months ended December 31, 2013, premiums and deposits increased by $237 million to $9,619 million compared to the same period last year. This result was primarily driven by higher premiums into GCAP products and single premium group annuities.

Wealth Management premiums and deposits in the fourth quarter of 2013 increased by $177 million compared to the previous quarter. This result was driven by higher premiums and deposits into GCAP products, proprietary retail investment funds, and single premium group annuities.

Sales
Wealth Management sales decreased in the fourth quarter of 2013 by $38 million to $2,592 million compared to the same quarter last year. This result was primarily driven by lower sales of the GMWB retail segregated fund product and group investment only products, mostly offset by higher sales of single premium group annuities.

For the twelve months ended December 31, 2013, sales increased by $798 million to $9,665 million compared to the same period last year. This result was primarily driven by higher sales of proprietary retail investment funds, GCAP products and single premium group annuities.

Wealth Management sales in the fourth quarter of 2013 increased by $459 million compared to the previous quarter. This result was driven by higher sales of proprietary retail investment funds, GCAP products, and single premium group annuities.

Net deposits for the fourth quarter of 2013 were $274 million compared to $446 million in the same quarter last year and $119 million in the prior quarter of 2013. For the twelve months ended December 31, 2013, net deposits were $1,097 million compared to $1,158 million in the same period last year reflecting lower deposits into the GMWB product.

Assets under administration

	December 31	
	2013	2012[(2)]
Assets under management		
Individual Retirement & Investment Services		
Risk-based products	**$ 6,467**	$ 6,983
Segregated funds	**27,022**	24,322
Proprietary mutual funds	**4,114**	3,585
Group Retirement Services		
Risk-based products	**6,553**	6,677
Segregated funds	**35,182**	30,316
	$ 79,338	$ 71,883
Other assets under administration [(1)]		
Individual Retirement & Investment Services	**5,367**	4,572
Group Retirement Services	**562**	835
Total	**$ 5,929**	$ 5,407
Summary by business/product		
Individual Retirement & Investment Services	**$ 42,970**	$ 39,462
Group Retirement Services	**42,297**	37,828
Total assets under administration	**$ 85,267**	$ 77,290

(1) Includes mutual funds distributed by Quadrus Investment Services, stock purchase plans administered by London Life and portfolio assets managed by GLC Asset Management Group.
(2) Certain comparative figures have been restated for the retrospective impact of IFRS 10, *Consolidated Financial Statements*.

Fee and other income

Fee income and other income increased by $28 million to $281 million in the fourth quarter of 2013 compared to the same quarter in 2012. This increase is due to growth in assets under management (AUM) driven by market gains and positive net cash flows, partially offset by lower fee margins.

For the twelve months ended December 31, 2013, fee and other income increased by $92 million to $1,075 million compared to the same period last year for the same reasons as noted for the three month period.

Fee and other income in the fourth quarter of 2013 is $10 million higher compared to the previous quarter due to higher daily average AUM partially offset by lower fee margins.

Net earnings

Net earnings for the fourth quarter of 2013 increased by $24 million to $93 million compared to the same quarter last year. The increase is primarily a result of higher fee income, favourable investment experience, and higher contributions from insurance contract basis changes, partially offset by higher operating expenses.

For the twelve months ended December 31, 2013, net earnings increased by $88 million to $387 million compared to the same period last year. The increase is primarily a result of higher fee income, favourable investment experience and increased segregated fund acquisition expense deferrals, partially offset by lower contributions from insurance contract basis changes and less favourable mortality experience.

Net earnings in the fourth quarter of 2013 decreased by $21 million compared to the previous quarter. This decrease is primarily driven by less favourable investment experience and higher expenses, partially offset by higher fee income and more favourable mortality experience.

OUTLOOK – WEALTH MANAGEMENT

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The Company's reputation for strength and stability, combined with prudent business practices as well as the depth and breadth of Wealth Management's distribution channels positions the organization well for 2014 and beyond. Wealth Management's strategy and organization are focused on achieving growth from profitable revenues.

In 2014, the Company will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term investment success. This approach benefits the Company by improving existing asset retention and by helping advisors attract new client deposits to the organization. A key distribution strategy is to maximize use of common tools, processes and support, while providing unique support to specific segments of advisors where appropriate.

Wealth Management's multiple brands and broad spectrum of distribution associates, including exclusive and independent channels, provide important strategic advantages within the Canadian market. The Company will continue to develop, price and market its comprehensive and competitive range of Wealth Management products to both retail and group clients. An important focus will be to provide unique sales and service support for larger, more complex accounts.

In the coming year, Wealth Management will continue to focus on the development of the next generation of retirement income products to serve the needs of the aging demographic and enhance our client experience through various initiatives. The Company expects this focus to generate higher net cash flow and associated fee income from segregated funds and mutual funds as well as from guaranteed payout annuities in future years. The Company will use its diverse distribution network to leverage its growth in market share.

Wealth Management will focus on strategic investment in the business, operational efficiency improvements and strong expense management to deliver strong financial results.

GROUP INSURANCE

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Premiums and deposits	**$ 1,886**	$ 1,852	$ 1,880	**$ 7,503**	$ 7,453
Sales	**116**	136	154	**656**	523
Fee and other income	**35**	36	37	**146**	149
Net earnings	**97**	115	136	**425**	439

Premiums and deposits

Premiums and deposits for the fourth quarter of 2013 increased by $6 million to $1,886 million compared to the same period last year, primarily due to an increase in small/mid-size case premiums and deposits partly offset by a decrease in large case premiums and deposits.

For the twelve months ended December 31, 2013, premiums and deposits increased by $50 million to $7,503 million compared to the same period in 2012, primarily due to an increase in long-term disability premiums, partly offset by a decrease in health premiums.

Premiums and deposits in the fourth quarter of 2013 increased by $34 million compared to the previous quarter primarily due to an increase in large case premiums and deposits.

Sales
Sales for the fourth quarter of 2013 decreased by $38 million to $116 million compared to the same quarter of last year. The decrease was due to lower sales in the large case market. Sales in the large case market can be highly variable from quarter to quarter.

For the twelve months ended December 31, 2013, sales increased by $133 million to $656 million compared to the same period last year. The increase was primarily due to higher sales in the creditor/direct marketing products mainly due to one large sale for $156 million in 2013 compared to one large sale for $39 million in 2012. The increase was also due to higher sales in the small/mid-size case market and in the large case market.

Sales in the fourth quarter of 2013 decreased by $20 million compared to the previous quarter primarily due to lower sales in the creditor/direct marketing products, the small/mid-size case market and in the large case market.

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

Fee and other income of $35 million for the three month period ended December 31, 2013 is both comparable to the same quarter in 2012 and the previous quarter.

Fee and other income of $146 million for the twelve month period ended December 31, 2013 is comparable to the same period in 2012.

Net earnings
Net earnings for the fourth quarter of 2013 decreased by $39 million to $97 million compared to the same quarter last year primarily due to lower contributions from insurance contract liability basis changes. The decrease was also partly due to lower morbidity and expense gains, partly offset by favourable mortality results, favourable investment experience and lower taxes.

For the twelve months ended December 31, 2013, net earnings of $425 million decreased by $14 million compared to the same period last year. The decrease was primarily due to lower morbidity gains and lower contributions from insurance contract liability basis changes. The decreases were partly offset by favourable mortality results, favourable investment experience and lower income taxes.

Net earnings in the fourth quarter of 2013 decreased by $18 million compared to the previous quarter primarily due to lower mortality and expense gains, less favourable investment experience and higher taxes partly offset by higher contributions from insurance contract liability basis changes.

OUTLOOK – GROUP INSURANCE
Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

During 2013, the Company maintained its strong competitive position achieving continued growth in revenue premium while maintaining strong expense management. The Company is well positioned within the Canadian group insurance business with leading market shares in most case size, regional and benefit market segments. The Company believes that this market share position, together with its low cost position and extensive distribution capability, will facilitate continued growth in revenue premium. Through effective investment in technologies and the introduction of innovative benefit solutions, the Company expects to achieve continued reductions in administration and claims adjudication costs, thereby enhancing its competitive position.

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

Canada Corporate net earnings for the fourth quarter of 2013 were $7 million compared to $47 million in the fourth quarter of 2012. The $40 million decrease is primarily due to the release of provisions for certain Canadian retirement plans of $38 million in the fourth quarter of 2012.

For the twelve months ended December 31, 2013, Canada Corporate had net earnings of $34 million compared to $113 million for the same period in 2012. The decrease in net earnings is primarily due to the release of provisions for certain Canadian retirement plans of $38 million in 2012 as noted above, lower mark-to-market gains on investment properties supporting corporate surplus of $38 million, decreased income on surplus assets of $8 million and an expense recovery in a private equity fund of $7 million in 2012, which did not recur. During the first quarter of 2013, the Company completed a review of remaining contingent liabilities relating to the cost of acquiring Canada Life Financial Corporation in 2003 and determined that most provisions were no longer required. This positively impacted net earnings by $23 million.

Compared to the previous quarter, net earnings increased by $6 million primarily due to higher mark-to-market gains on investment properties supporting corporate surplus of $5 million.

UNITED STATES
The United States operating results for Lifeco include the results of Great-West Financial, Putnam and the results of the insurance businesses in the United States branches of Great-West Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results.

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

BUSINESS PROFILE

FINANCIAL SERVICES
Great-West Financial provides an array of financial security products, including employer-sponsored defined contribution retirement plans. Through relationships with government plan sponsors, the Company is one of the largest providers of services to state defined contribution plans, with 18 record-keeping and two investment-only state clients as well as the government of Guam. Great-West Financial also offers individual retirement accounts. In addition, the Company provides annuity and life insurance products for individuals and businesses, as well as fund management, investment and advisory services. Through its FASCore subsidiary, it offers private label record-keeping and administrative services for other providers of defined contribution plans.

ASSET MANAGEMENT
Putnam provides investment management, certain administrative functions, distribution, and retirement plan services. Putnam offers a broad range of investment products, including equity, fixed income, absolute return and alternative strategies, through the Putnam Funds, Putnam World Trust Funds and institutional portfolios. Revenue is derived from the value and composition of assets under management, performance fees, and service and distribution fees. Accordingly, fluctuations in the financial markets, and changes in the composition of assets or accounts affect revenues and results of operations.

MARKET OVERVIEW

PRODUCTS AND SERVICES

The Company provides a focused product offering that is distributed through a variety of channels.

FINANCIAL SERVICES

MARKET POSITION	PRODUCTS AND SERVICES	DISTRIBUTION
• Fourth largest defined contribution record-keeper in the country, providing services for 4.9 million participant accounts and 29,742 plans • 26% market share in state and local government deferred compensation plans (as of September 30, 2013) • 25% market share of individual life insurance sold through the retail bank channel (as of September 30, 2013) • 6% market share of executive benefits markets life insurance purchased by financial institutions (as of September 30, 2013) • Great-West Lifetime Funds are the 14th largest target date fund offering in the United States	• Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services • Administrative and record-keeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans • Fund management, investment and advisory services • Individual retirement accounts (IRAs), individual term and single premium life insurance, and individual annuity products • Executive benefits markets life insurance products	• Retirement services products distributed to plan sponsors through brokers, consultants, advisors, third-party administrators and banks • FASCore record-keeping and administrative services distributed through institutional clients • Individual life and annuity products distributed through wholesale and retail sales force, banks, broker dealers and investment advisors • IRAs available to individuals through the Retirement Resource Centre • Executive benefits markets life insurance products distributed through wholesalers and specialized consultants

ASSET MANAGEMENT

MARKET POSITION	PRODUCTS AND SERVICES	DISTRIBUTION
• A global asset manager with assets under management of US$150 billion as of December 31, 2013 • International distribution includes sales teams that are focused on major institutional markets in Europe, the Middle East, Asia and Australia and through a strategic distribution relationship in Japan	**Investment Management Products & Services** • Individual retail investors - a family of open-end and closed-end mutual funds, college savings plans and variable annuity products • Institutional investors - defined benefit and defined contribution retirement plans sponsored by corporations, state, municipal and other governmental authorities, university endowment funds, charitable foundations, and collective investment vehicles (both U.S. and non-U.S.) • Administrative and record-keeping services for defined contribution plans • Alternative investment products across the fixed income, currency, quantitative and equity groups **Administrative Services** • Transfer agency, underwriting, distribution, shareholder services, trustee and other fiduciary services	**Individual Retail Investors** • A broad network of distribution relationships with unaffiliated broker dealers, financial planners, registered investment advisors and other financial institutions that distribute the Putnam Funds and defined contribution plan services to their customers, which, in total, includes nearly 160,000 advisors • Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents • Retail distribution channels are supported by Putnam's sales and relationship management team • Retirement plan sponsors and participants are supported by Putnam's dedicated retirement plan professionals and through a relationship with FASCore. **Institutional Investors** • Supported by Putnam's dedicated account management, product management, and client service professionals • Strategic relationships with several investment management firms outside of the U.S.

COMPETITIVE CONDITIONS

Financial Services

The life insurance, savings and investments marketplace is competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors, and certain service and professional organizations. No one competitor or small number of competitors is dominant. Competition focuses on name recognition, service, technology, cost, variety of investment options, investment performance, product features, price, and financial strength as indicated by ratings issued by nationally recognized agencies.

Asset Management

Putnam's investment management business is highly competitive. Putnam competes with other providers of investment products and services primarily on the basis of the range of investment products offered, investment performance, distribution, scope and quality of shareholder and other services, and general reputation in the marketplace. Putnam's investment management business is also influenced by general securities market conditions, government regulations, global economic conditions, and advertising and sales promotional efforts. Putnam competes with other mutual fund firms and institutional asset managers that offer investment products similar to Putnam as well as products which Putnam does not offer. Putnam also competes with a number of mutual fund sponsors that offer their funds directly to the public conversely; Putnam offers its funds only through intermediaries.

Selected consolidated financial information - United States

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Premiums and deposits[2]	**$ 10,423**	$ 10,389	$ 8,395	**$ 37,590**	$ 30,018
Sales[1]	**14,263**	10,973	9,359	**44,212**	32,788
Fee and other income[2]	**395**	365	319	**1,446**	1,247
Net earnings - common shareholders	**56**	76	76	**276**	321
Net earnings - common shareholders (US$)	**53**	74	77	**268**	321
Total assets[2]	**$ 64,558**	$ 63,857	$ 57,303		
Proprietary mutual funds and institutional net assets	**164,515**	150,342	131,013		
Total assets under management	**229,073**	214,199	188,316		
Other assets under administration	**192,490**	175,120	144,164		
Total assets under administration	**$ 421,563**	$ 389,319	$ 332,480		

Net earnings - common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Financial services	**$ 81**	$ 86	$ 95	**$ 339**	$ 361
Asset management	**(25)**	(10)	(19)	**(63)**	(40)
Corporate	**-**	-	-	**-**	-
	$ 56	$ 76	$ 76	**$ 276**	$ 321

Net earnings - common shareholders (US$ millions)

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Financial services	**$ 77**	$ 83	$ 96	**$ 329**	$ 361
Asset management	**(24)**	(9)	(19)	**(61)**	(40)
Corporate	**-**	-	-	**-**	-
	$ 53	$ 74	$ 77	**$ 268**	$ 321

[1] Sales (a non-IFRS measure) results in 2012, have been restated to conform with changes in methodology implemented in 2013 which improve consistency across the Company's platforms and with industry standards for sales measurement.
[2] During the year, the Company reclassified comparative figures for presentation adjustments.

BUSINESS UNITS – UNITED STATES

TRANSLATION OF FOREIGN CURRENCY

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

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

FINANCIAL SERVICES

2013 DEVELOPMENTS

- Premiums and deposits for the twelve months ended December 31, 2013 were US$6.1 billion, down 2% over the same period last year primarily due to strong sales in the retail bank market in 2012 that were not repeated in 2013.
- Fee and other income for the twelve months ended December 31, 2013 was US$618 million, an increase of US$102 million from the same period last year primarily due to increased average asset levels driven by higher average equity market levels and positive cash flows.
- For the twelve months ended December 31, 2013, sales were US$12.5 billion, up 39% over the same period last year. The increase compared to 2012 was primarily due to large Retirement Services plan sales in 2013.
- Net earnings for the twelve months ended December 31, 2013 were US$329 million, down 9% from the same period last year. The growth in the business was offset with lower income tax benefits, lower contributions from basis changes and management actions.
- The executive benefits market community bank segment sales for the twelve months ended December 31, 2013 increased 28% to US$255 million compared to the same period last year due to strong distribution relationships, increased focus on this market and positive market conditions.
- IRA sales for the twelve months ended December 31, 2013 increased 45% to US$422 million compared to the same period last year primarily driven by the strategic initiative to increase awareness of the rollover product among terminated plan participants.
- Great-West Retirement Services (GWRS) customer account values increased 23% or US$41 billion compared to the previous year-end.
- Managed account assets exceeded US$8.0 billion, a 32% increase from the previous year-end.
- The Great-West Lifetime Funds remained the 14th largest target date fund offering in the United States with US$5.3 billion in assets at December 31, 2013, a 44% increase from previous year-end and improved their ranking to 9th in net flows among target date fund families in 2013.
- In a 2013 survey conducted by Plan Adviser magazine, 401(k) plan advisers voted Great-West Financial No. 1 in best value for price and best wholesalers.
- With the recent win of a new state client by the public/non-profit market, Great-West Financial will provide record-keeping, administration or investment services to 20 of the 50 United States, more than any other service provider.

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Premiums and deposits	**$ 1,755**	$ 1,710	$ 1,712	**$ 6,311**	$ 6,234
Sales[(1)]	**5,595**	2,294	2,676	**12,933**	9,004
Fee and other income[(2)]	**173**	163	133	**638**	516
Net earnings	**81**	86	95	**339**	361
Premiums and deposits (US$)	**$ 1,673**	$ 1,643	$ 1,730	**$ 6,121**	$ 6,238
Sales (US$)[(1)]	**5,329**	2,206	2,702	**12,505**	9,012
Fee and other income (US$)[(2)]	**165**	154	135	**618**	516
Net earnings (US$)	**77**	83	96	**329**	361

(1) Sales (a non-IFRS measure) results in 2012, have been restated to conform with changes in methodology implemented in 2013 which improve consistency across the Company's platforms and with industry standards for sales measurement.
(2) During the year, the Company reclassified comparative figures for presentation adjustments.

Premiums and deposits

Premiums and deposits for the fourth quarter of 2013 decreased by US$57 million to US$1,673 million compared to the fourth quarter of 2012 due to a decrease of US$66 million in Retirement Services offset by an increase of US$9 million in Individual Markets. The decrease in Retirement Services is primarily related to lower transfers of US$250 million from retail investment options to the general account offset by deposits related to sales of US$169 million. The increase in Individual Markets is primarily due to higher sales in the executive benefits market, IRA, and annuity business lines, offset by lower sales in the retail bank market.

For the twelve months ended December 31, 2013, premiums and deposits decreased by US$117 million to US$6,121 million compared to the same period in 2012 due to a decrease of US$185 million in Individual Markets, partly offset by an increase of US$68 million in Retirement Services. The decrease in Individual Markets was primarily related to lower sales in the retail bank market. The increase in Retirement Services is primarily related to US$228 million from the group annuity product distributed by Great-West Financial's institutional partner American Funds, partly offset by lower deposits for public/non-profit of US$157 million.

Compared to the previous quarter, premiums and deposits were up by US$30 million in the fourth quarter of 2013 primarily due to an increase of US$102 million in Individual Markets related to higher executive benefits market sales of US$133 million, partly offset by a decrease in Retirement Services of US$72 million primarily due to lower deposits for public/non-profit.

Sales
In the fourth quarter of 2013, sales increased by US$2,627 million to US$5,329 million compared to the fourth quarter of 2012 due to an increase of US$2,571 million in Retirement Services and an increase of US$56 million in Individual Markets. The increase in Retirement Services is primarily due to one large plan sale for public/non-profit of US$1,636 million, two large 401(k) client sales of US$839 million and higher sales for the group annuity product distributed by Great-West Financial's institutional partner American Funds of US$105 million. The increase in Individual Markets is primarily due to US$56 million of sales in the IRA and individual annuity markets. Executive benefits market sales were up US$37 million, a 25% increase, due to a community bank market sales increase of US$80 million offset by lower sales in the retail bank market.

For the twelve months ended December 31, 2013, sales increased by US$3,493 million to US$12,505 million compared to the same period of 2012 driven by an increase of US$3,513 million in Retirement Services. The increase in Retirement Services is primarily due to an increase of US$1,796 million for public/non-profit related to one large plan sale of US$1,636 million and an increase in new participants of 42,000, or 25%, compared to the same period last year and an increase of US$1,536 million for 401(k). The increase in 401(k) reflects two large client sales of US$839 million and higher average assets per plan sold in 2013 compared to 2012. Individual Markets experienced a US$20 million decrease primarily due to lower sales in the retail bank market of US$193 million and the executive benefits market of US$27 million, offset by higher sales in the IRA and individual annuity markets of US$200 million. The sale of universal life products in the retail bank market in the United States has seen an overall drop in activity year-over-year which is contributing to the decrease in the retail bank market sales.

Sales in the fourth quarter of 2013 increased by US$3,123 million compared to the previous quarter due to an increase of US$2,959 million in Retirement Services and an increase of US$164 million in Individual Markets. The increase in Retirement Services is primarily due to one large plan sale for public/non-profit of US$1,636 million, two large 401(k) client sales of US$839 million, a higher number of 401(k) plans sold in the fourth quarter compared to the third quarter and higher sales for the group annuity product distributed by Great-West Financial's institutional partner American Funds of US$83 million. The increase in Individual Markets is primarily due to higher sales in the executive benefits market of US$127 million related to increased community bank market sales of US$129 million.

Financial Services - Retirement Services customer account values
(US$ millions)

	Change for the twelve months ended December 31		Total at December 31		
	2013	2012	**2013**	2012	**% Change**
General account - fixed options					
Public/Non-profit	**$ -**	$ 201	**$ 3,825**	$ 3,825	- %
401(k)	**164**	645	**5,725**	5,561	3 %
Institutional	**22**	-	**22**	-	NMF
	$ 186	$ 846	**$ 9,572**	$ 9,386	2 %
Segregated funds - variable options					
Public/Non-profit	**$ 257**	$ 738	**$ 10,483**	$ 10,226	3 %
401(k)	**1,825**	985	**9,608**	7,783	23 %
Institutional	**483**	14	**497**	14	NMF
	$ 2,565	$ 1,737	**$ 20,588**	$ 18,023	14 %
Proprietary mutual funds					
Public/Non-profit	**$ 125**	$ (31)	**$ 466**	$ 341	37 %
401(k)	**1,809**	1,361	**5,565**	3,756	48 %
Institutional	**9**	20	**83**	74	12 %
	$ 1,943	$ 1,350	**$ 6,114**	$ 4,171	47 %
Unaffiliated retail investment options & administrative services only					
Public/Non-profit	**$ 13,347**	$ 7,376	**$ 79,522**	$ 66,175	20 %
401(k)	**8,948**	5,815	**37,322**	28,374	32 %
Institutional	**14,120**	10,615	**66,747**	52,627	27 %
	$ 36,415	$ 23,806	**$ 183,591**	$ 147,176	25 %

The 2013 increase in the general account is primarily due to 401(k) plan sales while the 2013 increase in segregated funds is primarily related to growth in the equity markets. Proprietary mutual funds also increased in 2013 primarily due to 401(k) plan sales and growth in the equity markets in 2013. The increase in institutional funds in both the general account and segregated funds are due to the introduction of a group annuity product in the second half of 2012 distributed by Great-West Financial's institutional partner, American Funds. The unaffiliated retail investment options and administrative services only account values increased year-over-year primarily due to growth in equity markets and institutional and 401(k) plan sales.

Fee and other income

Fee and other income for the fourth quarter of 2013 increased by US$30 million to US$165 million compared to the fourth quarter of 2012 primarily due to increased average asset levels driven by higher average equity market levels and positive cash flows.

For the twelve months ended December 31, 2013, fee and other income increased by US$102 million to US$618 million compared to the same period last year due to the same reasons noted above.

Fee and other income for the fourth quarter of 2013 increased US$11 million compared to the previous quarter due to the same reasons noted above.

Net earnings

Net earnings for the fourth quarter of 2013 decreased by US$19 million to US$77 million compared to the fourth quarter of 2012 primarily due to lower mortality gains of US$13 million and the recognition of deferred income tax assets of US$14 million in the prior year, partly offset by higher contributions from basis changes and management actions of US$3 million and higher fees offset by higher expenses of US$2 million.

For the twelve months ended December 31, 2013, net earnings decreased by US$32 million to US$329 million compared to the same period in 2012. Net earnings related to business growth grew by US$21 million including higher fees and margins and better persistency offset by higher expenses and lower mortality gains. This increase was offset with lower income tax benefits of US$17 million, lower contributions from basis changes and management actions of US$25 million and less favourable investment experience of US$10 million.

Net earnings for the fourth quarter of 2013 decreased by US$6 million compared to the third quarter of 2013 primarily due to lower mortality basis changes of US$7 million and lower mortality gains of US$3 million, partly offset by more favourable investment experience of US$4 million.

OUTLOOK – FINANCIAL SERVICES

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

Continued progress of Great-West Financial's five-year strategic plan initiatives coupled with increased recognition in the marketplace since the 2012 brand launch have positioned the Company for solid growth. Great-West Financial ranked sixth for reputation in the 2013 Plan Adviser magazine survey, after not placing in the Top 10 the previous year, while strategic initiatives improved sales, service and client retention in key markets.

Advisor and wholesaler initiatives in the Retirement Services segment are designed to attract and retain high-quality staff and improve 401(k) wholesalers' ability to guide advisors in positioning Great-West Financial's proposals to win new business. Increases in staffing, the number of advisor relationships per wholesaler and close rates on quotes are expected to contribute to future sales growth.

Service and retention initiatives have significantly raised the standard level of service provided to 401(k) clients. The enhanced service model includes a new customer relationship management system that has contributed to increases in first contact resolution and attainment of target service response times. These efforts have raised 401(k) client retention to the target level of the five-year plan and are expected to improve retention further.

Significant increases in IRA sales are the result of proactive activities capitalizing on inbound call volume, direct-to-participant marketing with active participants and screening for IRA opportunities in an internal service centre. These efforts have propelled Great-West Financial's IRA to the No. 1 destination for asset rollovers from the Company's 401(k) block of business, with the expectation this momentum will carry into the future.

The initiative to increase participant balances is expected to continue the substantial asset growth achieved in 2013, thanks to system enhancements and the establishment of an internal team to facilitate paperless roll-ins for plan participants. System builds to promote and collect opportunities through all communication channels have contributed to strong lead flow and assisted the internal team's productivity in qualifying and closing roll-in leads.

Great-West Financial continually examines opportunities to structure products and develop strategies to stimulate growth in assets under management. The Great-West Lifetime funds and managed account offerings in defined contribution plans are expected to continue contributing to growth of AUM.

Expansion of retail bank distribution channels, along with the launch of an additional retail retirement income offering, is expected to help compensate for an overall drop in sales of universal life products. The brokerage channel distribution strategy has been expanded to include independent broker dealers. This initiative promotes sales through wholesaling to nearly 1,800 advisors.

In the executive benefits market, the community bank segment achieved strong sales in the fourth quarter, aided by favourable economic conditions as well as strong distribution relationships. The financial strength and stability of Great-West Financial and a focus on this market also are expected to drive continued success.

ASSET MANAGEMENT

2013 DEVELOPMENTS

- Putnam's ending assets under management (AUM) at December 31, 2013 of US$150 billion increased by US$21 billion compared to the same period a year ago primarily due to favourable financial markets and investment performance.
- Putnam's gross sales for the three months ended December 31, 2013 increased by US$1.5 billion compared to the same period last year primarily from strong mutual fund sales in the current quarter, which were at their highest levels since the third quarter of 2003. For the year, gross sales have increased by US$6.5 billion compared to the prior year.
- For the twelve months ended December 31, 2013, fee and other income was US$784 million, an increase of US$53 million compared to the prior year.
- Putnam has been ranked second of 64 mutual fund families assessed in this year's annual Barron's/Lipper ranking, based on overall investment performance, across all asset classes, for 2013. Putnam also ranked second among all fund families assessed over the past five years.
- Putnam received a DALBAR Service Award for providing outstanding service to shareholders of its mutual funds for the 24th consecutive year.
- Putnam received 47 "Best in Class" honours in the 2013 PLANSPONSOR Defined Contribution Survey, which included an award in every category of service evaluated. The number of awards placed Putnam in the top ranks of retirement service providers in the U.S.
- Putnam continues to sustain strong risk-adjusted investment performance relative to its peers. During the year ended December 31, 2013, approximately 93% of Putnam's fund assets performed at levels above the Lipper median and on a three-year and five-year basis 80% and 87% of fund assets performed above the Lipper median, respectively. As of December 31, 2013, approximately 63% of Putnam's fund assets performed at levels in the Lipper Top Quartile and on a five-year basis 71% of fund assets performed in the Lipper Top Quartile.

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Premiums and deposits	**$ 8,668**	$ 8,679	$ 6,683	**$ 31,279**	$ 23,784
Fee and other income					
Investment management fees	**165**	153	136	**602**	528
Performance fees	**5**	1	4	**8**	13
Service fees	**40**	38	35	**151**	142
Underwriting & distribution fees	**12**	10	11	**47**	48
Fee and other income	**222**	202	186	**808**	731
Net loss	**(25)**	(10)	(19)	**(63)**	(40)
Premiums and deposits (US$)	**$ 8,255**	$ 8,345	$ 6,750	**$ 30,331**	$ 23,804
Fee and other income (US$)					
Investment management fees (US$)	**157**	147	137	**584**	529
Performance fees (US$)	**5**	1	4	**8**	13
Service fees (US$)	**38**	37	36	**147**	142
Underwriting & distribution fees (US$)	**11**	10	11	**45**	47
Fee and other income (US$)	**211**	195	188	**784**	731
Net loss (US$)	**(24)**	(9)	(19)	**(61)**	(40)

Premiums and deposits

Premiums and deposits increased by US$1.5 billion to US$8.3 billion in the fourth quarter of 2013 compared to the same period in 2012 as a result of stronger overall mutual fund sales of US$2.8 billion, partially offset by lower institutional sales of US$1.2 billion.

For the twelve months ended December 31, 2013, premiums and deposits increased by US$6.5 billion to US$30.3 billion compared to the same period in 2012 due to improved mutual fund sales of US$8.6 billion, partially offset by lower institutional sales of US$2.1 billion.

Premiums and deposits in the fourth quarter of 2013 were comparable to the third quarter of 2013.

Fee and other income

Revenue is derived primarily from investment management fees, performance fees, transfer agency and other service fees, and underwriting and distribution fees. Generally, fees are earned based on AUM and may depend on financial markets, the relative performance of Putnam’s investment products, the number of retail accounts and sales.

Fee and other income for the fourth quarter of 2013 increased by US$23 million to US$211 million compared to the same period in 2012 primarily due to an increase in investment management fees from higher average AUM.

For the twelve months ended December 31, 2013, fee and other income increased by US$53 million to US$784 million compared to the previous year. This was primarily due to an increase in investment management fees and service fees from higher average AUM, partially offset by lower performance fees on institutional accounts.

Fee and other income for the fourth quarter of 2013 increased by US$16 million compared to the third quarter of 2013 primarily due to an increase in investment management fees from higher average AUM, and an increase in performance fees due to the seasonality in which these fees are earned.

Net earnings

For the fourth quarter of 2013, the net loss was US$24 million, an increase of US$5 million compared to the same period last year. Higher fee income and net investment income, including US$3 million of one-time gains from seed capital redeemed during the quarter, were more than offset by higher distribution costs of US$6 million, increased incentive compensation due to improved investment performance of US$5 million, and higher expense from fair value adjustments on share-based compensation by US$11 million.

For the twelve months ended December 31, 2013, the net loss was US$61 million, an increase of US$21 million compared to the same period last year. The 2012 comparative results include a release of a legal provision of US$16 million and the current year includes a US$16 million increase in expense from fair value adjustments on share-based compensation. Higher levels of fee income and net investment income, including gains from seed capital noted above, and lower financing costs were more than offset by higher incentive compensation due to improved investment performance and other expenses.

Net loss for the fourth quarter of 2013 increased by US$15 million compared to the third quarter of 2013. Higher fee income and net investment income, including gains from seed capital noted above, were more than offset by increased incentive compensation due to improved investment performance and other expenses, a US$15 million increase in expense from fair value adjustments on share-based compensation, and the release of certain income tax reserves in the prior quarter.

ASSETS UNDER MANAGEMENT

Assets under management
(US$ millions)

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Beginning assets	**$ 140,773**	$ 133,685	$ 126,935	**$ 128,329**	$ 116,652
Sales (includes dividends reinvested)	**8,255**	8,345	6,750	**30,331**	23,804
Redemptions	**(7,941)**	(7,280)	(6,901)	**(29,673)**	(25,593)
Net asset flows	**314**	1,065	(151)	**658**	(1,789)
Impact of market/performance	**8,469**	6,023	1,545	**20,569**	13,466
Ending assets	**$ 149,556**	$ 140,773	$ 128,329	**$ 149,556**	$ 128,329
Average assets under management	**$ 145,570**	$ 138,831	$ 127,125	**$ 138,417**	$ 123,259

Average AUM for the three months ended December 31, 2013 was US$145.6 billion, comprising mutual funds of US$73.8 billion and institutional accounts of US$71.8 billion. Average AUM increased by US$18.4 billion compared to the three months ended December 31, 2012 primarily due to the cumulative impact of positive market and investment performance on AUM. Net asset inflows for the fourth quarter of 2013 were US$0.3 billion compared to net outflows of US$0.2 billion in the same quarter last year, driven by quarterly mutual fund net asset inflows of US$1.8 billion.

Average AUM for the twelve months ended December 31, 2013 increased by US$15.2 billion compared to the twelve months ended December 31, 2012 due to the same reason as the in-quarter comparison. Net asset inflows for the twelve months ended December 31, 2013 were US$0.7 billion compared to net outflows of US$1.8 billion in the prior year, driven by mutual fund net asset inflows of US$3.7 billion.

Average AUM for the three months ended December 31, 2013 increased by US$6.7 billion compared to the previous quarter primarily due to the impact of positive market and investment performance.

OUTLOOK – ASSET MANAGEMENT

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-IFRS Financial Measures at the beginning of this document.

In 2014, Putnam will continue to drive growth and market share through new sales and asset retention in all markets it serves including Global Institutional, PanAgora (Putnam's quantitative institutional manager), U.S. Retail, Defined Contribution, and Registered Investment Advisors, while maintaining its industry-recognized reputation for service excellence.

Putnam has invigorated its investment organization over the past few years, and the firm remains committed to delivering superior performance.

The firm has revitalized its commitment to the Defined Contribution business and continues to see growth in new retirement plans on its record-keeping platform and in investment-only sales.

Innovation will remain a powerful differentiator for Putnam in 2014, as the firm further strengthens its product offerings, service features, and operational functions, while bolstering its corporate and business/product brand image with a wide range of key constituents. Further, Putnam intends to continue to invest in technology in order to scale its business model more cost effectively.

UNITED STATES CORPORATE

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

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

EUROPE

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

TRANSLATION OF FOREIGN CURRENCY

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

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

BUSINESS PROFILE

INSURANCE & ANNUITIES

The core products offered in the U.K. are payout annuities, savings and group insurance. These products are distributed through independent financial advisors (IFAs) and employee benefit consultants. The Isle of Man operation provides savings and individual protection products that are sold through IFAs and private banks in the U.K. and in other selected territories.

The core products offered in Ireland are savings and investments, individual and group insurance, and pension products through Irish Life Assurance. These products are distributed through independent brokers, a direct sales force and tied agent bank branches. Irish Life Investment Managers (ILIM) is the fund management division of the group. ILIM manages money on behalf of a wide range of institutional and retail, occupational defined benefit and defined contribution pensions, large multinational corporations, charities and domestic companies and is the largest manager of Irish pension assets.

The German operation focuses on pension, lifetime guaranteed minimum withdrawal benefit and individual protection products that are distributed through independent brokers and multi-tied agents.

Insurance & Annuities continues to expand its presence in its defined market segments by focusing on the introduction of innovative products and services, the quality of its service offering, and the enhancement of distribution capabilities and intermediary relationships.

REINSURANCE

Reinsurance operates primarily in the U.S., Barbados and Ireland. In the U.S., the reinsurance business is carried on through branches of Canada Life, London Life, subsidiaries of London Life and an indirect subsidiary of Great-West Financial. In Barbados, the reinsurance business is carried on primarily through branches of Canada Life, London Life and subsidiaries of London Life. In Ireland, the reinsurance business is carried on through subsidiaries of Canada Life and London Life.

The Company's business includes both reinsurance and retrocession business transacted directly with clients or through reinsurance brokers. As a retrocessionaire, the Company provides reinsurance to other reinsurers to allow those companies to spread their reinsurance risk.

The product portfolio offered by the Company includes life, annuity and property and casualty reinsurance, provided on both a proportional and non-proportional basis.

In addition to providing reinsurance products to third parties, the Company also utilizes internal reinsurance transactions between companies in the Lifeco group. These transactions are undertaken in order to better manage insurance risks relating to retention, volatility and concentration; and to facilitate capital management for the Company, its subsidiaries and branch operations. These internal reinsurance transactions may produce benefits that are reflected in one or more of the Company's other business units.

MARKET OVERVIEW

PRODUCTS AND SERVICES

The Company provides protection and wealth management products that are distributed primarily through independent sales channels.

INSURANCE & ANNUITIES

MARKET POSITION	PRODUCTS AND SERVICES	DISTRIBUTION
U.K. and Isle of Man • The market leader of the group life market, with 27% share (as at December 31, 2012) • Second in the group income protection market with 21% share (as at December 31, 2012) • Among the top ten insurers in payout annuities, with 8% market share (as at September 30, 2013) • A market leading offshore life company selling into the U.K. market, with 21% market share (as at September 30, 2013) • Among the top ten in the onshore unit-linked single premium bond market with a 6% market share (as at September 30, 2013) **Ireland** • The market leading life assurance company with 34% share (as at October 31, 2013) • Strong position in the retail life and pensions market with a 26% share (as at June 30, 2013) • Leading positions in the group pensions, group risk and corporate annuities markets • Irish life Investment Managers is the largest institutional fund manager in Ireland with €38 billion assets under management **Germany** • One of the top two insurers in the independent intermediary unit-linked market (as at September 30, 2013) • Among the top seven in the overall unit- linked market (as at September 30, 2013)	**U.K.** • Payout Annuities • Savings • Life insurance • Income Protection (Disability) • Critical Illness **Ireland** • Individual and Group Risk & Pensions • Individual and Bulk Annuities • Wealth Management Services • Individual Savings and Investment • Institutional Investment Management **Germany** • Pensions • Income protection (Disability) • Critical illness • Variable Annuities (GMWB)	**U.K. and Isle of Man** • IFAs • Private banks • Employee benefit consultants **Ireland** • Independent Brokers • Pensions and Investment Consultants • Direct Sales Force • Tied Bank Branch Distribution with various Irish banks **Germany** • Independent brokers • Multi-tied agents

REINSURANCE

MARKET POSITION	PRODUCTS AND SERVICES	DISTRIBUTION
• Among the top ten life reinsurers in the U.S. by assumed business • Niche positions in property and casualty and annuity business	**Life** • Yearly renewable term • Co-insurance • Modified co-insurance • Capital Relief Solutions **Property & Casualty** • Catastrophe retrocession **Annuity** • Payout annuity • Fixed annuity	• Independent reinsurance brokers • Direct placements

COMPETITIVE CONDITIONS

United Kingdom and Isle of Man
In the U.K., the Company has strong market positions in group risk, payout annuities (a top five provider in sales via IFAs, restricted whole of market advisers and non-advised third party distributors), and wealth management where, combined onshore and offshore, Canada Life is a top three unit-linked single premium bond provider in the U.K.

The Company successfully launched a range of funds aimed at the retail mutual fund market and continued during the year to build its footprint in this part of the investment marketplace. The Company also supplemented its Isle of Man Wealth Management business by launching a similar offering of investment products aimed at the U.K. high net worth investor from a base in Ireland. There were some signs of recovery in 2013 within the U.K. market with increases in the offshore Wealth Management new business sales and in group risk sales. However, onshore bond sales fell as a result of the change in legislation affecting distribution, which came into force at the start of the year. Payout annuity sales during the year were very strong and the Company began to focus on the enhanced annuity market where prospective policyholders are medically underwritten before acceptance.

Ireland
During the year, the Company significantly increased its presence in Ireland through the acquisition of Irish Life. Irish Life is the largest life assurance company in Ireland with a market share of 34%. It follows a multi-channel distribution strategy having the largest broker distribution network, the largest direct sales force and the largest Bancassurance distribution network where it has tied relationships with five banks. ILIM is Ireland's largest institutional fund manager with €38 billion of assets under management as at December 31, 2013.

Irish Life also has a 30% interest in Allianz, Ireland, the third largest property and casualty insurer in Ireland and a 50% interest in GloHealth, a start up private health insurer.

Germany
Canada Life has established a leading position among providers of unit-linked products to the German independent intermediary market. This market remains competitive as more companies move in due to the projected strong growth over the coming years. Throughout this period of increased competition, the Company has maintained a top two position in this segment of the market through continuous product, technology and service improvements.

While the German economy has continued its recovery, life and pensions market consumers remained reluctant to invest in long-term pension products, in particular equity-based and unit-linked products due to market volatility.

Reinsurance
In the U.S. life reinsurance market, the demand for capital relief remains high because of conservative reserving requirements on term and universal life products and uncertainty as to how regulations will change for these products in the future.

The Company has also had success in traditional life reinsurance as the number of remaining life reinsurers is reducing due to consolidation and clients' value diversification. The Company's financial strength and ability to offer both capital solutions and traditional mortality reinsurance continues to be a competitive advantage.

In Europe, Solvency II dominates the regulatory landscape and although interest in capital relief transactions remains high, very few companies are willing to commit to long-term transactions before regulations are finalized. Demand for longevity reinsurance remains strong in the U.K. and some continental European countries; however there are now more reinsurers participating in this market.

Property insurers/reinsurers saw fewer major catastrophes in 2013. The 2013 Atlantic hurricane season was the first since 1994 to end with no major hurricanes.

Selected consolidated financial information - Europe

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Premiums and deposits[1]	**$ 6,767**	$ 4,511	$ 2,636	**$ 15,894**	$ 9,459
Fee and other income[1]	**276**	269	166	**863**	605
Net earnings - common shareholders	**202**	129	151	**701**	615
Total assets[1][2]	**$ 131,364**	$ 122,446	$ 75,076		
Proprietary mutual funds and institutional net assets	**16,614**	13,402	-		
Total assets under management	**147,978**	135,848	75,076		
Other assets under administration	**40,042**	36,200	107		
Total assets under administration	**$ 188,020**	$ 172,048	$ 75,183		

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

Net earnings - common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Insurance & Annuities	**$ 166**	$ 134	$ 91	**$ 548**	$ 407
Reinsurance	**63**	57	64	**245**	215
Europe Corporate	**(27)**	(62)	(4)	**(92)**	(7)
	$ 202	$ 129	$ 151	**$ 701**	$ 615

2013 DEVELOPMENTS

Irish Life Group Limited Acquisition

On July 18, 2013, the Company, through its wholly-owned subsidiary Canada Life Limited, completed the €1.3 billion acquisition of Irish Life Group Limited (Irish Life). The life and pension operations of the Company's Irish subsidiary, Canada Life (Ireland), are being combined with the operations of Irish Life, retaining the Irish Life brand name. Irish Life has a strong brand with a broad product offering and wide, multi-channel distribution network within Ireland, similar to the Company's operations in Canada.

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.

Selected consolidated financial information - Europe

	For the three months ended December 31, 2013			For the twelve months ended December 31, 2013		
	Irish Life	Non-Irish Life	Change	Irish Life	Non-Irish Life	Change
Premiums and deposits	$ 4,019	$ 2,748	146 %	6,590	9,304	71 %
Fee and other income	110	166	66 %	203	660	31 %
Net earnings - common shareholders	37	165	22 %	74	627	12 %
Net earnings - common shareholders excluding restructuring and acquisition costs	44	181	24 %	85	713	12 %
Total assets	$ 48,355	$ 83,009	58 %			
Proprietary mutual funds and institutional net assets	16,614	-	NMF			
Total assets under management	64,969	83,009	78 %			
Other assets under administration	39,916	126	NMF			
Total assets under administration	**$ 104,885**	**$ 83,135**	**126 %**			

Operating Results

- Net earnings for the twelve months ended December 31, 2013 were $701 million which includes $97 million of combined restructuring charges, acquisition costs and impairment charges of Canada Life (Ireland) brand value, all relating to the acquisition of Irish Life. Excluding these costs, net earnings for the twelve months ended December 31, 2013 were $798 million, up 30% from the same period last year. Irish Life contributed $85 million of net earnings, excluding restructuring charges, since the date of acquisition.
- Premiums and deposits for the twelve months ended December 31, 2013 were $15.9 billion, up $6.4 billion compared to the same period of 2012 mainly due to the $6.6 billion contribution from Irish Life.
- Insurance & Annuities sales for the twelve months ended December 31, 2013 were $9.9 billion, up $6.2 billion compared to the same period of 2012 driven primarily by the contribution from Irish Life.
- Fee and other income for the twelve months ended December 31, 2013 was $863 million, up $258 million compared to the same period of 2012. Irish Life contributed $203 million to fee and other income in 2013. The remaining increase of $55 million is driven primarily by higher fees in Germany and U.K. as well as the impact of currency movement.
- In the U.K., Canada Life retained its “Five Star” service award in the investment category for the fifth year running at the Financial Adviser Awards 2013. The Investments Life and Pensions Moneyfacts 2013 awards in the U.K., named Canada Life “Best Tax and Estate Planning Solutions Provider” for the third year in a row and “Most Competitive Annuity Provider” for the fourth consecutive year. In addition, Canada Life won the “Service Beyond the Call of Duty” category.
- Canada Life was named “Best Group Risk Provider” of the year in the U.K. at both the Health Insurance Provider Awards 2013 and at the Workplace Savings and Benefit Awards 2013.
- At the Irish Pension Awards, Irish Life won in the category of Investment Manager of the Year, Innovation and Communication while Setanta won Equities Manager of the Year.
- In Germany, FOCUS-MONEY magazine named Canada Life's Garantierter Rentenplan bAV product the best product for occupational pensions in Germany.

BUSINESS UNITS – EUROPE

INSURANCE & ANNUITIES

The Insurance & Annuities segment includes the operating results of Irish Life from July 19, 2013 to December 31, 2013.

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Premiums and deposits	**$ 5,229**	$ 3,775	$ 1,567	**$ 11,521**	$ 5,021
Sales	**4,773**	3,299	1,289	**9,922**	3,738
Fee and other income	**266**	257	149	**820**	560
Net earnings	**166**	134	91	**548**	407

Premiums and deposits

Premiums and deposits for the fourth quarter of 2013 increased by $3.7 billion to $5.2 billion compared to the same period in 2012. The increase is due to the contribution of $4.0 billion by Irish Life and currency movement, partly offset by lower sales of single premium savings products in U.K.

For the twelve months ended December 31, 2013, premiums and deposits increased by $6.5 billion to $11.5 billion compared to the same period last year, primarily due to Irish Life's contribution of $6.6 billion and currency movement.

Premiums and deposits in the fourth quarter of 2013 increased by $1.5 billion compared to the previous quarter due to the higher premiums and deposits attributable to Irish Life and currency movement.

Sales

Sales for the three months ended December 31, 2013 were $4.8 billion, up $3.5 billion compared to the same period of 2012. Irish Life contributed $3.8 billion to the sales growth. Excluding Irish Life, sales in the fourth quarter decreased $0.3 billion due mainly to lower sales of single premium savings products in U.K., partly offset by higher sales of U.K. payout annuities and currency movement.

For the twelve months ended December 31, 2013, sales increased by $6.2 billion to $9.9 billion compared to the same period last year, including sales of $6.2 billion from Irish Life. Growth in sales in U.K. payout annuities and currency movement were offset by lower single premium savings product sales in U.K.

Sales in the fourth quarter of 2013 increased by $1.5 billion from the previous quarter due mainly to the growth experienced in the retail insurance and fund management business units of Irish Life and currency movement.

Fee and other income

Fee and other income for the fourth quarter of 2013 increased by $117 million to $266 million compared to the same period in 2012 primarily due to the contribution of $110 million by Irish Life. Higher fees in Germany due to higher funds under management and currency movement also contributed to the increase.

For the twelve months ended December 31, 2013, fee and other income increased by $260 million to $820 million compared to the same period last year mainly due to the contribution of $203 million by Irish Life. Higher fees in Germany and U.K. due to higher funds under management and changes in product mix, as well as currency movement also contributed to the increase.

Fee and other income increased by $9 million compared to the previous quarter mainly due to higher fees in Irish Life and currency movement, partly offset by lower fees in U.K.

Net earnings
Net earnings for the fourth quarter of 2013 increased by $75 million to $166 million compared to the same quarter last year. Irish Life contributed $44 million, excluding restructuring costs, to net earnings during the quarter. Excluding the contribution from Irish Life, net earnings increased by $31 million compared to the same quarter last year. This increase was primarily due to $36 million improved mortality and morbidity results in the U.K. group insurance and payout annuity operations and $6 million higher new business gains in U.K. payout annuities. These increases were partly offset by less favourable investment experience.

Net earnings for the twelve months ended December 31, 2013 increased by $141 million to $548 million compared to the same period last year. Irish Life contributed $85 million, excluding restructuring costs, to net earnings during the quarter. Excluding the year-to-date contribution from Irish Life, net earnings for the twelve months ended December 31, 2013 increased by $56 million compared to the same period last year. 2012 results included $19 million net strengthening of interest and reinvestment risk margins and other reserves. Also contributing to higher net earnings were $38 million increased mortality profits in the U.K. and higher new business volumes and margins in U.K. payout annuities of $23 million. These increases were somewhat offset by less favourable investment experience.

Net earnings for the fourth quarter of 2013 increased by $32 million compared to the previous quarter. Excluding $3 million increased contribution from Irish Life, net earnings increased by $29 million compared to the third quarter of 2013. Favourable investment experience and higher mortality and morbidity gains in U.K. were partly offset by lower surrender fees in the wealth management business and the impact of changes to tax provisions.

OUTLOOK – INSURANCE & ANNUITIES
Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

United Kingdom/Isle of Man – The outlook for payout annuities in 2014 is generally positive; the market continues to grow as more retirees have defined contribution pensions due to the closure of defined benefit schemes. The U.K. regulator conducted a review of the annuity market in 2013 and is due to report early in 2014. While it is uncertain what the outcomes of this will be, we expect it is likely to encourage the take-up of the open market annuity option and reduce the number of policyholders who take an annuity from their existing pension provider. Any success in increasing this take-up option is likely to increase the size of the market that Canada Life currently operates in. The enhanced annuity market segment continues to be very competitive with more entrants entering or planning to enter the market.

Canada Life continues to be a key player in the single premium investment bond marketplace; and in 2013 has strengthened its market share. It will continue to develop a presence in both the offshore and onshore market segments, and 2014 will particularly focus on the growth of its new targeted range of mutual funds. The Company's distribution strategy will remain focused on IFAs.

The distribution regulatory environment was impacted by the introduction of the Retail Distribution Review regime on December 31, 2012. As IFAs adapted to the move from a commission-based compensation model to charging their clients directly for the advice given, there was some disruption to the market. This disruption had some impact on sales levels early in 2013, particularly for onshore investment bonds. However, this regulatory change has now broadly settled, and the Company continues to concentrate its efforts on this key distribution channel, remaining focused on strengthening our advisory relationships.

The outlook for the group risk operation remains positive. The business is benefiting from its strong pricing discipline and risk selection through the U.K. recession and is well placed as the U.K. economy improves, with the market fundamentals of increased membership and salary inflation returning. Within Group Income Protection, the business will continue to show pricing discipline in reflecting the low interest rate environment and higher claims incidence in the larger employer schemes. The business has and is expected to continue to benefit from additional risk benefits within the operation's customer base as a result of the U.K. Government's Pensions Auto Enrolment initiative in the workplace. This initiative started in October 2012 and will complete in 2016.

Ireland – In December 2013, Ireland formally exited the European Union / European Central Bank / International Monetary Fund bailout program which it entered in November 2010 having achieved all of the agreed fiscal correction and borrowing targets set under the program. The exit signified a significant step forward for Ireland and its economy. Although significant risks remain, particularly external risks, the Central Bank of Ireland forecasts the Irish economy should achieve 2% GDP growth per annum in the medium-term. As a consequence of these developments new business demand in the life and pensions market is expected to resume steady, if modest, growth after five years of decline.

Germany – The outlook for the German operation is positive and the Company expects continued growth in assets under management in 2014. The fundamental economic indicators for Germany are positive although higher levels of sales growth may be delayed in the short-term. The delay stems from the uncertainty surrounding the lingering effects of the European debt crisis and long-term investment guarantees, which when resolved, should lead to a return of German investor confidence.

Unit-linked products are expected to grow their market share, particularly as traditional guaranteed products fall out of favour due to the increasing cost of the guarantees. The Company is positioning itself to further strengthen its presence in the unit-linked market through continued investments in product development, distribution technology and service improvements.

REINSURANCE

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2013	Sept. 30 2013	Dec. 31 2012	**Dec. 31 2013**	Dec. 31 2012
Premiums and deposits[(1)]	**$ 1,538**	$ 736	$ 1,069	**$ 4,373**	$ 4,438
Fee and other income[(1)]	**10**	12	17	**43**	45
Net earnings	**63**	57	64	**245**	215

(1) During the year, the Company reclassified comparative figures for presentation adjustments.

Premiums and deposits

Premiums and deposits for the fourth quarter of 2013 increased by $469 million to $1,538 million compared to last year primarily due to favourable business volumes and currency movement, partially offset by the commutation of a health reinsurance treaty.

For the twelve months ended December 31, 2013, premiums and deposits decreased by $65 million to $4,373 million compared to the same period last year due to the commutation of a health reinsurance treaty mainly offset by favourable business volumes and currency movement.

Premiums and deposits in the fourth quarter of 2013 increased by $802 million compared to the previous quarter primarily due to favourable business volumes.

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

Fee and other income decreased by $7 million compared to the same quarter last year and $2 million year-to-date driven by a favourable prior year commutation, partially offset by higher volumes and new business.

Fee and other income were comparable to the previous quarter.

Net earnings
Net earnings for the fourth quarter of 2013 decreased by $1 million to $63 million compared to the same period last year. Favourable mortality experience in the life segment and net tax provision decreases were offset by lower contributions from basis changes year-over-year and the impact of prior year new business gains in the Europe life business.

For the twelve months ended December 31 2013, net earnings increased by $30 million to $245 million compared to the same period last year. Favourable claims experience, and a lower cost for basis changes over the year were partially offset by lower new business gains as a result of a European life retrocession agreement signed in 2012 and the net impact of year-over-year changes to tax provisions.

Net earnings for the fourth quarter of 2013 increased by $6 million compared to the previous quarter as net tax provision decreases were partly offset by less favourable mortality experience.

OUTLOOK – REINSURANCE
Refer to the Cautionary Note regarding Forward-looking Information and the Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

The U.S. life reinsurance industry is expected to hold steady in 2014. New regulatory rules affecting the calculation of statutory reserves are expected to come into effect in 2016 at the earliest. This will impact the collateral needed for non-licensed reinsurance entities which will affect the types of insurance products sold and the reinsurance needs over the next few years. In addition, U.S. insurance regulators have established a task force to review and potentially change the regulations associated with captives that are used to finance redundant reserves. Underlying insurance sales will hold steady at their current levels if the U.S. economy does not demonstrate a significant recovery.

In Europe, Solvency II is still expected to be a driver of the business in 2014 and beyond. The Company's reinsurance operation is preparing to help European clients and other affiliated companies meet the potential capital challenges and business opportunities arising from these regulatory changes.

As 2013 saw fewer major catastrophes, it is expected that 2014 pricing will continue to soften as was the case in 2013. Also in the property and casualty market, hedge fund capacity, collateralized covers and catastrophe bond issuance continue to grow and buyer demand is under downward pressure due to increasing client retention. The primary focus for 2014 will look to move further away from the exposure risk, continue to utilize the most recent U.S. modeling updates from Risk Management Solutions (RMS) and control geographic exposures without significant impact on margins.

EUROPE CORPORATE

The Europe Corporate account includes financing charges, the impact of certain non-continuing items as well as the results for the legacy international businesses.

Net earnings for the three months ended December 31, 2013 were a net loss of $27 million which includes restructuring and other charges related to Irish Life of $23 million, primarily reflecting the write-down of intangible related to the Canada Life brand in Ireland. Excluding the Irish Life related costs of $23 million, net earnings for the three months ended December 31, 2013 were a net loss of $4 million compared to $4 million net loss for the same period in 2012.

Net earnings for the twelve months ended December 31, 2013 were a net loss of $92 million which includes year-to-date restructuring charges, and acquisition costs and write-down of intangible assets relating to the Irish Life acquisition totaling of $97 million. Excluding the Irish Life related costs of $97 million, net earnings for the twelve months ended December 31, 2013 were $5 million compared to a net loss of $7 million for the same period of 2012. During the first quarter of 2013, the Company completed a review of remaining contingent liabilities relating to the cost of acquiring Canada Life Financial Corporation in 2003 and determined that most provisions were no longer required. This positively impacted net earnings in 2013 by $11 million.

Net earnings for the three months ended December 31, 2013 including restructuring acquisition costs and write-down of intangible assets relating to Irish Life were a net loss of $27 million compared to a net loss of $62 million for the third quarter of 2013. The decrease in net loss was mainly due to a reduction in restructuring and acquisition costs relating to Irish Life from $60 million in the third quarter to $23 million in the fourth quarter.

LIFECO CORPORATE OPERATING RESULTS

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

For the three months ended December 31, 2013, Lifeco Corporate had net earnings of $189 million compared to a net loss of $139 million in the fourth quarter of 2012. Fourth quarter 2013 net earnings includes a litigation recovery recorded in the subsequent event period, which increased net earnings by $226 million. Fourth quarter 2012 net earnings included the impact of litigation provision adjustments, relating to the same legal matter, which negatively impacted net earnings by $140 million after-tax. Excluding the impact of these litigation items, the net loss increased by $38 million, as compared to the same period in 2012, primarily as a result of higher mark-to-market losses on a macro capital hedge of $26 million. In the fourth quarter of 2012, net earnings included a release of reserves for uncertain tax positions (UTP) which positively impacted 2012 net earnings by $20 million.

For the twelve months ended December 31, 2013, Lifeco Corporate had earnings of $153 million compared to a net loss of $168 million in the same period in 2012. Excluding the impact of the litigation provision adjustments noted above, the net loss increased by $45 million, as compared to the same period in 2012, primarily for the same reasons noted above. Also contributing to the increase in the net loss is a $5 million charge as a result of prior year capital tax audit reassessments, partially offset by lower operating and other expenses.

Net earnings for the three months ended December 31, 2013 in Lifeco Corporate increased by $203 million compared to the previous quarter. Excluding the impact of the above noted litigation provision, the net loss increased by $23 million, primarily due to higher mark-to-market losses on a macro capital hedge of $26 million.

OTHER INFORMATION

SELECTED ANNUAL INFORMATION

(in $ millions, except per share amounts)	Years ended December 31		
	2013	2012	2011[1]
Total revenue[2]	**$ 26,446**	$ 30,597	$ 29,898
Net earnings - common shareholders			
Operating earnings	**$ 2,052**	$ 1,946	$ 1,898
Net earnings	**2,278**	1,806	2,022
Net earnings per common share			
Operating	**$ 2.108**	$ 2.049	$ 2.000
Basic	**2.340**	1.902	2.129
Diluted	**2.297**	1.891	2.112
Total assets			
Total assets[2][3]	**$ 325,905**	$ 253,850	$ 238,768
Proprietary mutual funds and institutional net assets	**185,243**	134,598	125,390
Total assets under management	**511,148**	388,448	364,158
Other assets under administration	**247,139**	157,455	137,807
Total assets under administration	**758,287**	545,903	501,965
Total liabilities[2][3]	**$ 305,906**	$ 236,839	$ 222,664
Dividends paid per share			
Series F First Preferred	**1.4750**	1.4750	1.4750
Series G First Preferred	**1.3000**	1.3000	1.3000
Series H First Preferred	**1.21252**	1.21252	1.21252
Series I First Preferred	**1.1250**	1.1250	1.1250
Series J First Preferred [4]	**1.50000**	1.50000	1.50000
Series L First Preferred	**1.41250**	1.41250	1.41250
Series M First Preferred	**1.450**	1.450	1.450
Series N First Preferred [5]	**0.912500**	0.912500	1.004375
Series P First Preferred [6]	**1.350**	1.152120	-
Series Q First Preferred [7]	**1.2875**	0.625235	-
Series R First Preferred [8]	**1.200**	0.26630	-
Common	**1.230**	1.230	1.230

(1) The 2011 figures have not been adjusted to reflect current period reclassifications and new and revised IFRS adopted on January 1, 2013.
(2) During the year, the Company reclassified comparative figures for presentation adjustments.
(3) Comparative figures, where impacted, have been restated for the retrospective impact of new and revised IFRS effective during 2013 most notably IAS 19R, *Employee Benefits and IFRS 10*, C*onsolidated Financial Statements*.
(4) The Series J First Preferred Shares were redeemed on December 31, 2013.
(5) The Series N First Preferred Shares were issued on November 23, 2010. The first dividend payment was made on March 31, 2011 in the amount of $0.32 per share. Regular quarterly dividends were $0.228125 per share.
(6) The Series P First Preferred Shares were issued on February 22, 2012. The first dividend payment was made on June 30, 2012 in the amount of $0.477120 per share. Regular quarterly dividends were $0.337500 per share.
(7) The Series Q First Preferred shares were issued on July 6, 2012. The first dividend payment was made on September 30, 2012 in the amount of $0.303360 per share. Regular quarterly dividends were $0.321875 per share.
(8) The Series R First Preferred shares were issued on October 11, 2012. The first dividend payment was made on December 31, 2012 in the amount of $0.266300 per share. Regular quarterly dividends are $0.30000 per share.

QUARTERLY FINANCIAL INFORMATION

Quarterly financial information (in $ millions, except per share amounts)	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue[(1)]	**$ 8,056**	$ 7,206	$ 3,628	$ 7,556	$ 7,305	$ 8,756	$ 7,918	$ 6,618
Common Shareholders Net earnings								
Total	**717**	523	521	517	351	518	488	449
Basic - per share	**0.717**	0.527	0.548	0.544	0.370	0.546	0.512	0.474
Diluted - per share	**0.716**	0.522	0.547	0.544	0.369	0.542	0.509	0.471
Operating earnings[(2)]								
Total	**491**	523	521	517	491	518	488	449
Basic - per share	**0.491**	0.527	0.548	0.544	0.517	0.546	0.512	0.474
Diluted - per share	**0.490**	0.522	0.547	0.544	0.514	0.542	0.509	0.471

(1) During the year, the Company reclassified comparative figures for presentation adjustments.
(2) Operating earnings are presented as a non-IFRS financial measure of earnings performance before certain other items that management considers to be of a non-recurring nature. Refer to the "Cautionary Note Regarding Non-IFRS Financial Measures" section of this document.

Lifeco's consolidated net earnings attributable to common shareholders were $717 million for the fourth quarter of 2013 compared to $351 million reported a year ago. On a per share basis, this represents $0.717 per common share ($0.716 diluted) for the fourth quarter of 2013 compared to $0.370 per common share ($0.369 diluted) a year ago.

Total revenue for the fourth quarter of 2013 was $8,056 million and comprises premium income of $5,850 million, regular net investment income of $1,430 million, a negative change in fair value through profit or loss on investment assets of $225 million, and fee and other income of $1,001 million.

DISCLOSURE CONTROLS AND PROCEDURES

The Company’s disclosure controls and procedures are designed to provide reasonable assurance that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management evaluated the effectiveness of the Company’s disclosure controls and procedures as at December 31, 2013 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Company's management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, has evaluated the effectiveness of Lifeco's internal control over financial reporting based on the Internal Control - Integrated Framework (COSO Framework) published in 1992 by The Committee of Sponsoring Organizations of the Treadway Commission.

Management evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2013 and, based on such evaluation, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have concluded that the Company's internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting.

There have been no changes in the Company's internal control over financial reporting during the twelve month period ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

From the date of acquisition to December 31, 2013, Irish Life had revenue of $526 million and net earnings of $85 million (excludes $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 investment and insurance contracts on account of segregated fund policyholders.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Great-West Life provided insurance benefits to other companies within the Power Financial Corporation, Lifeco's parent, group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM.

At December 31, 2013 the Company held $40 million ($41 million in 2012) of debentures issued by IGM.

During 2013, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $204 million from IGM ($232 million in 2012).

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

There were no significant outstanding loans or guarantees at the Balance Sheets date and no loans or guarantees issued during 2013 or 2012. There were no provisions for uncollectible amounts from related parties during 2013 and 2012.

TRANSLATION OF FOREIGN CURRENCY

Through its operating subsidiaries, Lifeco conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the U.S. dollar, the British pound and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the reporting period. All income and expense items are translated at an average rate for the period. The rates employed are:

Translation of foreign currency **Period ended**	**Dec. 31 2013**	Sept. 30 2013	June 30 2013	Mar. 31 2013	Dec. 31 2012	Sept. 30 2012	June 30 2012	Mar. 31 2012
United States dollar								
Balance sheet	**$1.06**	$1.03	$1.05	$1.02	$0.99	$0.98	$1.02	$1.00
Income and expenses	**$1.05**	$1.04	$1.02	$1.01	$0.99	$1.00	$1.01	$1.00
British pound								
Balance sheet	**$1.76**	$1.66	$1.60	$1.54	$1.62	$1.59	$1.60	$1.60
Income and expenses	**$1.70**	$1.61	$1.57	$1.56	$1.59	$1.57	$1.60	$1.57
Euro								
Balance sheet	**$1.47**	$1.39	$1.37	$1.30	$1.31	$1.26	$1.29	$1.33
Income and expenses	**$1.43**	$1.38	$1.34	$1.33	$1.29	$1.24	$1.30	$1.31

MUTUAL FUNDS DEPOSITS AND ASO PREMIUM EQUIVALENTS (ASO CONTRACTS)

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

Additional information relating to Lifeco, including Lifeco's most recent consolidated financial statements, CEO/CFO certification and Annual Information Form are available at www.sedar.com.