


International scope.

Diverse businesses.

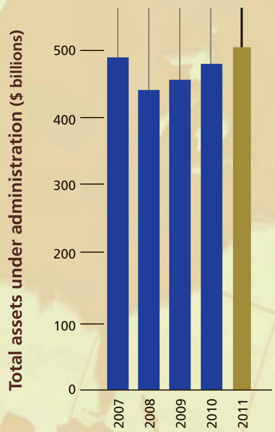
Strong performance.

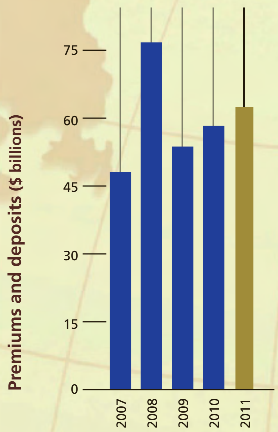


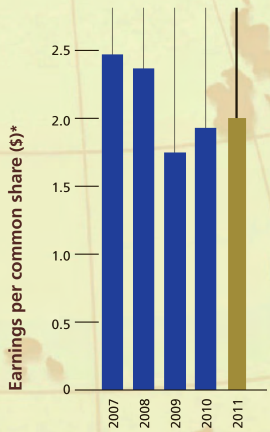

GREAT-WEST LIFECO INC.

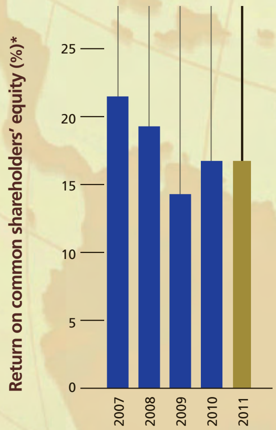
Annual Report **2011**

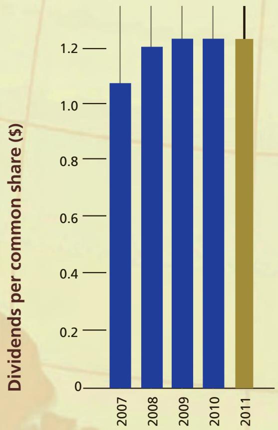
Key Performance Measures

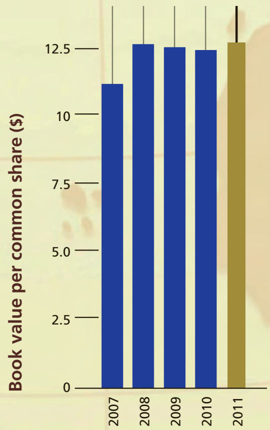












2007 to 2009 Key Performance Measures reported on a previous CGAAP basis
**Information is presented on an operating earnings basis, a non-IFRS financial measure*

Our cover features images from cities where we have a head office:
***Canada**: Esplanade Riel, Winnipeg; University of Western Ontario, London; CN Tower, Toronto*
***United States**: Colorado State Capitol Building, Denver; Faneuil Hall, Boston*
***Europe**: Houses of Parliament, London; Custom House, Dublin; Cologne Cathedral, Cologne*

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Readers are referred to the Cautionary Notes regarding forward-looking information and non-IFRS financial measures on page 6 of this report.

Directors' Report to Shareholders

Raymond L. McFeetors
Chairman of the Board

D. Allen Loney
President and CEO

Great-West Lifeco's financial condition remains very solid as a result of its continued strong performance in 2011. The Corporation delivered superior results compared to peer companies in its industry due to strong organic growth of premiums and deposits, and solid investment performance, despite challenging market conditions.

Performance measures

Operating earnings attributable to common shareholders were $1.9 billion, or $2.000 per share, compared to $1.8 billion or $1.920 per share in 2010.

Lifeco's return on equity (ROE) of 16.6% on operating earnings and 17.6% on net earnings for the twelve months ended December 31, 2011 continued to rank among the strongest in the financial services sector.

The quarterly dividend on Lifeco's common shares remained unchanged in 2011.

Other measures of Lifeco's performance in 2011 include:

- Premiums and deposits were $62.3 billion, compared to $59.1 billion in 2010.
- General fund and segregated fund assets increased from $229.4 billion to $238.8 billion in 2011.
- Total assets under administration at December 31, 2011 were $502 billion, compared to approximately $487 billion a year ago.

Financial strength

Our companies continue to benefit from prudent and conservative investment policies and practices with respect to the management of their consolidated assets. In addition, our conservative product underwriting standards and disciplined approach to introducing new products have proven beneficial for Lifeco and its companies over the long term. Also, our approach to asset/liability management has minimized our exposure to interest rate movements. In Canada, we continued to offer segregated fund guarantees in a prudent and disciplined manner, thereby limiting our risk exposure. As a result of these disciplines, our balance sheet is one of the strongest in the industry.

The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio for Great-West Life was 204% on a consolidated basis at December 31, 2011. This measure of capital strength remains at the upper end of our target operating range.

At December 31, 2011, Lifeco held cash and cash equivalents of approximately $0.6 billion; the net result of capital transactions since the third quarter of 2008. As this cash is held at Lifeco, it is not reflected in the regulatory capital ratios of our operating subsidiaries. It augments our capital and liquidity position, thereby enhancing the Corporation's capability to take advantage of market opportunities.

We have a high quality bond portfolio, with 99% rated investment grade at December 31, 2011.

Diversified across Canada, the United States and Europe

Canada

In Canada, Lifeco's companies maintained leading market positions in their individual and group businesses. Individual insurance sales in Canada increased 6% and sales of proprietary retail investment funds increased 3% year over year. The Canadian operations have experienced strong organic growth by focusing on diversified distribution, prudent product and service enhancements, and expense management.

Our group retirement services business recorded strong growth; our group insurance business continued to experience strong persistency; and our individual segregated fund and mutual fund businesses maintained positive net cash flows.

Together, Lifeco's operating companies remain Canada's number one provider of individual insurance solutions. From term, universal and participating life insurance to individual disability and critical illness insurance, our broad range of products gives advisors choice and flexibility in meeting clients' diverse individual needs. We are the leading provider of participating life insurance and continue to focus on excellence in managing and growing our participating business. Within our group of companies participating products have been continuously offered since 1847 and policyholder dividends have been paid every year. With over 65 years' experience in the individual disability insurance market, we are a leading provider of individual disability and critical illness insurance in Canada.

The Canadian operations continued to focus on distribution support and development in 2011, both in the exclusive and independent distribution channels. The relationship we have with advisors supports the very strong persistency of our business, provides a strategic advantage for us and contributes to strong market share across our multiple lines of business.

Great-West Lifeco Inc. (TSX:GWO) is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses. Great-West Lifeco has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company, London Life Insurance Company, The Canada Life Assurance Company, Great-West Life & Annuity Insurance Company and Putnam Investments, LLC. Great-West Lifeco and its companies have over $502 billion* in assets under administration, and are members of the Power Financial Corporation group of companies.

For more information on Great-West Lifeco, including current ratings, visit www.greatwestlifeco.com.

**Assets as of December 31, 2011*

Directors' Report to Shareholders (cont.)

We offer group retirement and savings plans that are tailored to the unique needs of businesses and organizations. Group capital accumulation plans are a core business for Great-West Life.

Great-West Life continues to offer an important perspective on pension reform, to help ensure that Canadians save adequately and effectively for their retirement. The pending implementation of Pooled Registered Retirement Plans is an important development in helping working Canadians save for retirement.

Great-West Life is a leading provider of group insurance solutions for organizations of all sizes in Canada. Our product offering includes group life, healthcare, dentalcare, wellness and group disability, critical illness and international benefits plans, plus convenient online services. We are also the leading provider of group creditor insurance in Canada.

In 2011, the Great-West Life Centre for Mental Health in the Workplace™ launched *Managing Emotions*, a comprehensive awareness, education and training program offered at no cost to employers. This joins a range of resources to help employers understand and take steps to improve mental health in the workplace, all publicly available through the Centre's website.

United States

Financial Services continued to post solid results in 2011. While overall sales were down from 2010's record-setting year, a focus on expanded distribution and diverse product offerings contributed to a 23% increase in corporate 401(k) plan sales and a jump in regional and national business-owned life insurance cases to nine in 2011 from three the previous year.

A mid-year agreement with Bank of America Merrill Lynch created a high-potential distribution channel for corporate 401(k) sales. Meanwhile, Financial Institutions Markets added four new distribution partners to drive additional sales of its individual life insurance products.

Financial Services' strategy to increase its assets under management also is proving successful. With US$1.9 billion in assets at year-end 2011, the Maxim Lifetime Asset Allocation Series (MLAAS) mutual funds became the 16th largest target date fund offering in the United States. MLAAS also ranked 10th in net inflows for the year ended 2011.

Great-West Life & Annuity made significant progress in 2011 on its five-year strategic plan. Key initiatives to increase sales, improve customer service, increase assets under management, and launch new products have laid the groundwork for accelerated growth.

A new online sales tool aggregates information about 401(k) prospects, advisors, plans and sales metrics to increase opportunities and sales force productivity. A customer relationship management system consolidates legacy databases to improve service to retirement plan sponsors and partners and enhance client retention. An Individual Retirement Account (IRA) rollover initiative is increasing asset retention through rollovers by terminated group plan participants.

New products also position Great-West Life & Annuity to capitalize on institutional and individual investment trends. A collective trust product provides target date asset allocation investment solutions to large corporate and government plan markets, and retail retirement income products for individuals are planned for 2012.

Executive Management

Canada

Paul Mahon
President and COO,
Canada

United States

Mitchell T. G. Graye
President and CEO
Great-West Life & Annuity

Robert L. Reynolds
President and CEO
Putnam Investments

Europe

Arshil Jamal
President and COO,
Europe

Putnam's assets under management ended 2011 at US$117 billion, reflecting the impact of exceptional market volatility offset in part by positive sales momentum in several business channels. Putnam's suite of absolute return funds, launched in January 2009, reached over US$3.2 billion in assets under management as of December 31, 2011.

In 2011, Putnam continued its focus on investment performance and innovation, and introduced new ways for investors to cope with volatile markets. The firm launched Putnam Dynamic Risk Allocation Fund, which Putnam believes may achieve higher returns than a traditional balanced fund with approximately the same volatility as a traditional balanced fund by investing in a broader set of asset classes and using leverage to increase the fund's exposure to asset classes.

In the retirement market space, Putnam introduced the Putnam Retirement Income Lifestyle suite of funds, which are designed to limit volatility for investors who are taking withdrawals in retirement. The firm also saw significant growth in new retirement plans on its record-keeping system and strong investment-only sales.

Europe

In Europe, the Corporation has operations through Canada Life in the United Kingdom, Isle of Man, Ireland and Germany.

In 2011, we continued to face challenging credit markets as well as a general loss of consumer confidence in investments due to volatility in equity markets. These pressures continued to affect sales volumes. Earnings were again impacted by the required strengthening of reserves for future asset default risk and asset impairments. The earnings impact was somewhat mitigated by both our credit risk reduction activities and the opportunity for yield enhancement of gilt holdings (U.K. government issued securities) due to wider credit spreads.

As a result of our continued focus on credit and expense controls, our European operations were in a strong position coming into 2011, and this focus was maintained throughout the year. Additionally, there was a renewed focus on risk and risk management as we prepare for the advent of Solvency II in Europe.

Great-West Lifeco participates in international reinsurance markets through Canada Life Reinsurance and London Reinsurance Group, providing life, annuity and property and casualty reinsurance in the United States and in international markets.

In 2011, reinsurance demand remained strong, particularly for structured reinsurance solutions with U.S. life insurers. We continued to leverage our financial strength, disciplined risk-management practices and excellent client relationships to achieve strong business results in the face of significant catastrophe impacts early in the year. We continue to follow capital developments globally for potential business opportunities.

Board of Directors

On behalf of the Board of Directors, it is our pleasure to recognize the professionalism and continuing dedication of the people across our companies who serve our clients and distribution associates worldwide. We also thank our clients, distribution associates and shareholders for their continued support.

Raymond L. McFeetors
Chairman of the Board

D. Allen Loney
President and CEO

This chart depicts the corporate relationships among Lifeco and its material and certain other subsidiaries as at December 31, 2011. Lifeco beneficially owns, or exercises control or direction over, 100% of the voting securities of each such subsidiary.

Business Overview

Operating Regions | **Major Brands** | **Products and Services**

Great-West Life
London Life
Canada Life
Freedom 55 Financial
Quadrus Investment Services Ltd.

- **Life, disability and critical illness insurance** for individuals, business owners and families
- **Retirement savings and income plans** for individuals and groups, including segregated fund policies and payout annuities, as well as proprietary and third-party mutual funds through Quadrus Investment Services Ltd.
- **Fund management, investment and advisory services** through GWL Realty Advisors Inc. and GLC Asset Management Group Ltd.
- **Comprehensive benefit solutions** for small, medium and large employer groups. Includes **traditional benefit programs** and services plus specialty services such as absence services, employee assistance plans, *Best Doctors*™ medical referral services and online services including plan administration, eClaims, and *Health SolutionsPlus*, Canada's first VISA® payment card for healthcare spending accounts
- **Creditor insurance**, including life, disability, job loss and critical illness coverage
- Life, health, accident and critical illness insurance for members of affinity groups

Great-West Life & Annuity
First Great-West Life & Annuity
Great-West Retirement Services
FASCore
Advised Assets Group
Maxim Series Funds
Orchard Trust

- **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**
- **Business-owned life insurance** and **executive benefits products**

Putnam

- **A global asset management firm** offering mutual funds, institutional portfolios, college savings plans, 401(k)s, IRAs, and other retirement plans
- Investment capabilities include fixed income, equities – both U.S. and global – absolute return and global asset allocation

PanAgora Asset Management

- **Active portfolio management and research capabilities** utilizing quantitative investment techniques. Offers a broad range of strategies spanning regions, risk levels and asset classes, including equity, fixed income, currency, global macro, multi-asset and alternative investment approaches

Canada Life

Protection and wealth management products and related services in the United Kingdom, Isle of Man, Ireland and Germany:

- Individual life, disability and critical illness insurance
- Group life, income protection and critical illness insurance
- Pensions, savings, investments and payout annuities
- Fund Management through Setanta Asset Managers and Canada Life Asset Management Ltd.

Canada Life Reinsurance
London Reinsurance Group

Reinsurance and retrocession business primarily in the United States and European markets:

- Life – yearly renewable term, co-insurance and modified co-insurance
- Property and casualty – catastrophe retrocession
- Annuity – fixed and payout

Distribution Channels

- **Gold Key** financial security advisors associated with Great-West Life
- **Freedom 55 Financial**™ and **Wealth & Estate Planning Group** financial security advisors associated with London Life
- Independent advisors associated with **managing general agencies** that distribute Canada Life products and services
- **National accounts**, including Investors Group, that distribute Canada Life products and services
- Great-West Life group insurance and retirement sales and service staff in offices across Canada that support **independent advisors, brokers and benefit consultants** distributing our group products

Market Position*

- Serves the financial security needs of **more than 12 million Canadians**
- 26% market share of individual life insurance measured by premium [3]
- 25% market share of individual living benefits measured by premium [3]
- 26.6% market share of individual segregated funds [3]
- 22.2% market share of group insurance [1]
- 18.4% market share of group capital accumulation plan assets, serving 1.2 million member accounts
  as at June 30, 2011 (Benefits Canada 2011 CAP report data)
- Leading market share for creditor insurance revenue premium

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- 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 **financial institutions**
- Business-owned life insurance and executive benefits products distributed through **specialized consultants**

- **Fourth largest defined contribution record-keeper in the country,** providing services for 4.4 million participant accounts
- Significant market share in state and government deferred compensation plans
- 21% market share of individual life insurance sold through the retail bank channel [3]
- 9% market share of business-owned life insurance purchased by financial institutions [3]

- Services the global institutional, domestic retail, defined contribution, and registered investment advisor markets

- **Nearly 5 million shareholders and retirement plan participants** and **nearly 150 institutional client accounts** around the world
- More than 170,000 advisors distribute Putnam products
- Provides services to over 400 defined contribution plans

- Institutional investors
- Sub-advisory

- Serves **over 100 institutional investors**, including many of the world's top 300 plans

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U.K. and Isle of Man
- Independent financial advisors
- Employee benefit consultants

Ireland
- Independent brokers and direct sales force

Germany
- Independent brokers and multi-tied agents

U.K. and Isle of Man
- Among the top 20 life insurance companies operating in the U.K. [1]
- The market leader of the group life market, with 30% share [1]
- Second in the group income protection market with 20% share [1]
- Among the top offshore life companies in the U.K. market, with 22% market share [3]
- Among the top insurers in payout annuities, with 6% market share [3]
- Among the top ten in the onshore unit-linked single premium bond market [4]

Ireland
- 5% of Irish life assurance market [3]
- Among the top seven insurers by new business market share [2]

Germany
- One of the top two insurers in the independent intermediary unit-linked market [3]
- Among the top six in the overall unit-linked market [4]

Reinsurance
- Independent reinsurance brokers
- Direct placements

Reinsurance
- Among top ten life reinsurers in the U.S. by assumed business
- Niche positions in property and casualty and annuity businesses

* [1] *as at December 31, 2010* [2] *as at June 30, 2011* [3] *as at September 30, 2011* [4] *as at December 31, 2011*

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011 compared with the same periods in 2010, and with the three months ended September 30, 2011. The MD&A provides an overall discussion, followed by analysis of the performance of Lifeco's three major reportable segments: Canada, United States 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 (GWL&A), and Putnam Investments, LLC (Putnam).

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., GWL&A 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, 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.

In Europe, Canada Life is broadly organized along geographically defined market segments and offers protection and wealth management products, including payout annuity products, and reinsurance. The Europe segment comprises two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Ireland and Germany; 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, GWL&A, 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 year ended December 31, 2011.

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 action by the Company, including statements made by the Company with respect to the expected benefits of acquisitions or divestitures, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events 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 made by the Company due to, but not limited to, important factors such as sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates, taxes, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, changes in accounting policies and the effect of applying future accounting policy changes including future policy changes required under IFRS, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive, and there may be other factors, including factors set out under "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates", and any listed in other filings with securities regulators, which are 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 reconciliations 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 Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	For the twelve months ended Dec. 31 2011	Dec. 31 2010
Premiums and deposits:					
Life insurance, guaranteed annuities and insured health products	$ 4,334	$ 4,392	$ 4,610	$ 17,293	$ 17,748
Self-funded premium equivalents (ASO contracts)	651	660	654	2,645	2,575
Segregated funds deposits:					
Individual products	1,829	1,975	2,158	7,345	7,284
Group products	1,777	1,420	1,385	6,117	6,790
Proprietary mutual funds & institutional deposits	5,624	5,892	6,667	28,888	24,654
Total premiums and deposits	14,215	14,339	15,474	62,288	59,051
Fee and other income	740	704	713	2,903	2,821
Paid or credited to policyholders	6,340	6,826	3,578	23,043	23,225
Operating earnings – common shareholders	500	457	465	1,898	1,819
Net earnings – common shareholders	624	457	465	2,022	1,615
Per common share					
Operating earnings	$ 0.528	$ 0.481	$ 0.491	$ 2.000	$ 1.920
Basic earnings	0.657	0.481	0.491	2.129	1.704
Dividends paid	0.3075	0.3075	0.3075	1.2300	1.2300
Book value	12.61	12.46	11.46		
Return on common shareholders' equity (trailing four quarters*)					
Net operating earnings	16.6%	16.7%	16.7%		
Net earnings	17.6%	16.7%	14.8%		
Total assets	$ 238,768	$ 237,048	$ 229,421		
Proprietary mutual funds and institutional net assets	125,390	124,343	126,053		
Total assets under management	364,158	361,391	355,474		
Other assets under administration	137,807	131,853	131,528		
Total assets under administration	$ 501,965	$ 493,244	$ 487,002		
Total equity	$ 16,104	$ 15,837	$ 14,816		

The Company uses operating earnings, a non-IFRS financial measure, which excludes the impact of certain litigation provisions described in note 30 to the Company's annual consolidated financial statements.

* Return on common shareholders' equity is the trailing four quarter calculation of net earnings divided by common shareholders' equity.

Lifeco 2011 Highlights

- Despite challenging market conditions the Company delivered strong operating results in all regions as compared to peer companies in its industry.
- During 2011, the credit ratings for Lifeco and its major operating subsidiaries were maintained by Fitch Ratings, A.M. Best Company, DBRS Limited, Moody's Investor Service and Standard & Poor's Ratings Services. The Company continues to enjoy strong ratings relative to its North American peer group due to its conservative risk profile and stable earnings track record.
- Return on common shareholders' equity was 17.6% on net earnings and 16.6% on an operating earnings basis.
- Quarterly dividends on Lifeco's common shares remained unchanged during 2011.
- The Company remained well capitalized despite the volatility in equity markets and continued decline in interest rates. Lifeco's Canadian operating subsidiary, The Great-West Life Assurance Company, reported a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio of 204% at December 31, 2011.
- Total assets under administration grew to nearly $502 billion at December 31, 2011 from $487 billion a year ago.

Net Earnings

Consolidated net earnings of Lifeco include the net earnings of Great-West Life and its operating subsidiaries London Life and Canada Life, GWL&A and Putnam together with Lifeco's corporate results.

Lifeco's net earnings attributable to common shareholders for the three month period ended December 31, 2011 were $624 million compared to $465 million reported a year ago. On a per share basis, this represents $0.657 per common share ($0.651 diluted) for the fourth quarter of 2011 compared to $0.491 per common share ($0.488 diluted) a year ago.

For the twelve months ended December 31, 2011, Lifeco's net earnings attributable to common shareholders were $2,022 million compared to $1,615 million reported a year ago, an increase of 25%. On a per share basis, this represents $2.129 per common share ($2.112 diluted) for 2011 compared to $1.704 per common share ($1.695 diluted) a year ago.

Operating Earnings

Operating earnings attributable to the common shareholder for the three months ended December 31, 2011, were $500 million compared to $465 million reported a year ago. On a per share basis, this represents $0.528 per common share ($0.523 diluted) for the fourth quarter of 2011 compared to $0.491 per common share ($0.488 diluted) a year ago.

Operating earnings attributable to the common shareholders for the twelve months ended December 31, 2011 were $1,898 million, compared to $1,819 million reported a year ago, an increase of 4%. On a per share basis, this represents $2.000 per common share ($1.984 diluted) for 2011 compared to $1.920 per common share ($1.898 diluted) a year ago.

Operating earnings, a non-IFRS financial measure, exclude the net impact of two unrelated litigation provisions which increased net earnings by $124 million after-tax or $0.129 per common share. The provisions are described more fully in the Lifeco Corporate operating results. Operating earnings for the twelve months ended December 31, 2010, exclude the impact of an incremental litigation provision in the amount of $204 million after-tax attributable to the common shareholder.

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	**Dec. 31 2011**	Dec. 31 2010
Canada					
Individual Insurance	**$ 41**	$ 102	$ 45	**$ 291**	$ 270
Wealth Management	**80**	11	83	**264**	316
Group Insurance	**101**	96	98	**357**	382
Canada Corporate	**22**	26	11	**74**	7
	244	235	237	**986**	975
United States					
Financial Services	**83**	87	72	**349**	310
Asset Management	**(8)**	(11)	(14)	**15**	(41)
U.S. Corporate	**4**	(1)	55	**6**	57
	79	75	113	**370**	326
Europe					
Insurance & Annuities	**117**	106	79	**445**	403
Reinsurance	**73**	45	49	**130**	137
Europe Corporate	**(9)**	(3)	(9)	**(13)**	(8)
	181	148	119	**562**	532
Lifeco Corporate	**(4)**	(1)	(4)	**(20)**	(14)
Operating earnings	**500**	457	465	**1,898**	1,819
Certain litigation provisions (1)	**124**	–	–	**124**	(204)
Net earnings	**$ 624**	$ 457	$ 465	**$ 2,022**	$ 1,615

(1) Certain litigation provisions as described in the Corporate section of the document.

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

Net earnings in 2011 were impacted by a number of factors.

Interest Rate Environment

During the second half of 2011, interest rates in countries where the Company operates declined sharply. The declines in interest rates varied by country, but were generally 100 basis points or more for terms five years and longer, and 50 basis points or less at the short end of the yield curve.

In Canada, where the Company is more exposed to declining interest rates due to the long duration of certain insurance contract liabilities, this caused a decrease in net earnings of approximately $10 million in the fourth quarter of 2011, in addition to the $59 million net earnings decrease reported in the third quarter. In Europe, where the Company's assets and liabilities are very closely matched, there was a modest gain reported in the third quarter and a largely offsetting decrease in the fourth quarter, with net minimal impact.

Equity Markets

Momentum from the fourth quarter of 2010 rally slowed in the second quarter of 2011 and reversed sharply in the third quarter. Equity market levels recovered somewhat in the fourth quarter, but major equity indices still finished the year down 11% in Canada, down 5.6% in the United Kingdom (U.K.) and flat in the United States (U.S.). Notwithstanding the decline in the second half of the year, average equity market levels for the twelve months ended December 31, 2011 were higher than in 2010.

As equity markets weakened in 2011, the Company experienced downward pressure on asset-based fee income and increased cost of guarantees of death, maturity, or income benefits on certain wealth management products offered by the Company. The fair value of the common stocks backing products with long-tail liabilities were generally consistent with the Company's expectations.

Credit Markets

While 2011 witnessed credit ratings of many European countries being downgraded and the Standard & Poor's downgrading of U.S. government debt for the first time, the Company's credit experience remained stable with minimal impairments.

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

	For the three months ended December 31, 2011			For the twelve months ended December 31, 2011		
	Impairment (charges)/ recoveries	Charges for future credit losses in insurance contract liabilities	Total	Impairment (charges)/ recoveries	Charges for future credit losses in insurance contract liabilities	Total
Canada	$ –	$ (3)	$ (3)	$ –	$ (7)	$ (7)
United States	1	(3)	(2)	9	(3)	6
Europe	4	(24)	(20)	12	(44)	(32)
Total	**$ 5**	**$ (30)**	**$ (25)**	**$ 21**	**$ (54)**	**$ (33)**

In the fourth quarter of 2011, net market value increases on previously impaired securities, both realized and unrealized, positively impacted common shareholders' net earnings by $4 million. New impairments in the quarter had very little impact on net earnings as releases of provisions for future credit loss on new impaired assets exceeded the actual impairment loss by $1 million. For the twelve months ended December 31, 2011 net recoveries positively impacted common shareholders' net earnings by $21 million due to net recoveries on previously impaired investments and the release of the provision for future credit loss exceeding the actual loss on new impaired assets.

In the fourth quarter of 2011, net downgrades in the Company's bond holdings resulted in an increase in provisions for future credit losses in insurance contract liabilities which negatively impacted common shareholders' net earnings by $30 million ($54 million for the twelve months ended December 31, 2011).

Foreign Currency

During 2011, the Canadian dollar was slightly stronger versus the U.S. dollar on average and relatively level compared to the British pound and the euro, as compared to 2010. For the twelve months ended December 31, 2011, foreign currency translation had a negative impact on net earnings of $15 million in the U.S. segment and $4 million in the Europe segment. The impact of currency translation during fourth quarter 2011 was not material.

The Company's sensitivity to the euro remains low as less than 2% of the Company's net earnings year to date are in euros.

Actuarial Assumption Changes

The Company adopted the revised Actuarial Standards of Practice for subsection 2350 relating to future mortality improvement in actuarial liabilities for life insurance and annuities in its Canadian operations in the third quarter of 2011. This had a positive impact on life insurance contract liabilities and a negative impact on annuity liabilities, for an overall net earnings benefit of $84 million as reported in the third quarter of 2011. The Company revised the corresponding assumptions in its Europe and U.S. operations in the fourth quarter of 2011 for an overall positive net earnings impact of $228 million and negative $3 million respectively.

The Company also updated a number of actuarial experience studies in-quarter resulting in a net strengthening of actuarial liabilities which negatively impacted net earnings by $93 million after-tax. Positive impacts in Canada Group and U.K. payout annuity were more than offset by a $147 million after-tax net earnings decrease resulting from updated lapse assumptions in traditional life reinsurance.

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 2011	Sept. 30 2011	Dec. 31 2010	**Dec. 31 2011**	Dec. 31 2010
Canada					
Individual Insurance	**$ 985**	$ 899	$ 912	**$ 3,673**	$ 3,396
Wealth Management	**2,134**	1,859	2,210	**8,542**	8,476
Group Insurance	**1,812**	1,781	1,743	**7,166**	6,902
	4,931	4,539	4,865	**19,381**	18,774
United States					
Financial Services	**1,761**	1,572	1,540	**5,827**	6,903
Asset Management	**5,455**	5,743	6,503	**28,164**	24,038
	7,216	7,315	8,043	**33,991**	30,941
Europe					
Insurance & Annuities	**1,181**	1,565	1,691	**5,407**	5,846
Reinsurance	**887**	920	875	**3,509**	3,490
	2,068	2,485	2,566	**8,916**	9,336
Total	**$ 14,215**	$ 14,339	$ 15,474	**$ 62,288**	$ 59,051

Sales

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	**Dec. 31 2011**	Dec. 31 2010
Canada	**$ 2,301**	$ 1,890	$ 2,569	**$ 8,944**	$ 9,539
United States	**8,890**	7,386	8,527	**36,834**	38,057
Europe	**881**	1,279	1,308	**4,144**	4,487
Total	**$ 12,072**	$ 10,555	$ 12,404	**$ 49,922**	$ 52,083

The information in the table is a summary of results for premiums and deposits and sales of the Company. Additional commentary regarding premiums and deposits and sales can be found in Segmented Operating Results.

NET INVESTMENT INCOME

Net investment income

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	**Dec. 31 2011**	Dec. 31 2010
Investment income earned (net of investment properties expenses)	**$ 1,348**	$ 1,316	$ 1,430	**$ 5,443**	$ 5,665
(Provision)/recovery of credit losses on loans and receivables	**2**	(2)	(1)	**13**	2
Net realized gains	**32**	34	55	**151**	116
Regular investment income	**1,382**	1,348	1,484	**5,607**	5,783
Investment expenses	**(17)**	(18)	(20)	**(69)**	(74)
Regular net investment income	**1,365**	1,330	1,464	**5,538**	5,709
Changes in fair value through profit or loss	**1,564**	2,080	(1,540)	**4,164**	3,825
Net investment income (loss)	**$ 2,929**	$ 3,410	$ (76)	**$ 9,702**	$ 9,534

Net investment income in the fourth quarter of 2011 increased by $3,005 million compared to the same period last year. The increase in net investment income is primarily due to increases in fair values of the Company's bond investments resulting from lower interest rates. During the quarter, long-term government bond rates continued to decline, however, this was partly offset by a widening of corporate spreads. Regular investment income decreased primarily as a result of provisions for the settlement of litigation relating to the Company's investment in a USA based private equity firm.

For the twelve months ended December 31, 2011 net investment income increased by $168 million compared to the same period last year. The increase in net investment income from 2010 is primarily a result of an increase in fair values of $4,164 million in 2011 compared to an increase in fair values of $3,825 million in 2010 primarily due to increases in fair values of the Company's bond investments resulting from declining interest rates. Regular investment income decreased primarily as a result of currency movement as a result of a stronger Canadian dollar throughout 2011 compared to 2010 and due to provisions for the settlement of litigation relating to the Company's investment in a USA based private equity firm.

Net investment income was lower in the fourth quarter of 2011 compared to the third quarter of 2011 primarily due to the change in fair values, which was an increase of $1,564 million in the fourth quarter compared to an increase of $2,080 million in the third quarter of 2011. The fair value of the Company's bond investments increased less in the fourth quarter of 2011 compared to the third quarter of 2011 due to smaller declines in government bond rates.

With the adoption of IFRS, investment properties are carried at fair value with changes in fair value recorded in net investment income. Because of the long-term nature of investment properties, these assets are often acquired to support products with long-tail liabilities. Generally, the value of the insurance contract liabilities will fluctuate in line with the changes in fair value of the investment properties held in support of those liabilities as both are based on the long-term expected cash flows for these investments. For investment properties that are held to support shareholders' surplus, any change in fair value directly impacts common shareholders' net earnings.

Investment properties fair values for the three month period ended December 31, 2011 increased by $16 million compared to a decrease of $3 million for the same period last year. For the twelve months ended December 31, 2011, investment properties fair values increased by $143 million compared to $162 million in the same period last year. In the Company's Canadian portfolio, stronger real estate fundamentals and lower investment yield parameters resulted in an increase of $12 million in fair value for the quarter and $102 million for the twelve months ended December 31, 2011. The Company's Europe portfolio experienced an increase of $4 million in fair value in the fourth quarter across a number of properties and $41 million for the twelve months ended December 31, 2011. The Company has no significant holdings of investment properties in its U.S. segment. The after-tax impact on shareholders' net earnings of the increase in fair value of investment properties held in the surplus accounts was $3 million in the fourth quarter and $46 million for the twelve months ended December 31, 2011 compared to a decrease of $2 million in the fourth quarter of 2010 and an increase of $10 million for the twelve months ended December 31, 2010.

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, and 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 2011	Sept. 30 2011	Dec. 31 2010	**Dec. 31 2011**	Dec. 31 2010
Canada					
Segregated funds, mutual funds and other	**$ 231**	$ 231	$ 228	**$ 941**	$ 881
ASO contracts	**35**	38	35	**147**	144
	266	269	263	**1,088**	1,025
United States					
Segregated funds, mutual funds and other	**304**	296	311	**1,232**	1,246
Europe					
Segregated funds, mutual funds and other	**170**	139	139	**583**	550
Total fee and other income	**$ 740**	$ 704	$ 713	**$ 2,903**	$ 2,821

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 can be found in 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 2011	Sept. 30 2011	Dec. 31 2010	**Dec. 31 2011**	Dec. 31 2010
Canada	**$ 3,255**	$ 2,950	$ 2,306	**$ 10,971**	$ 10,669
United States	**956**	1,433	750	**4,229**	4,625
Europe	**2,129**	2,443	522	**7,843**	7,931
Total	**$ 6,340**	$ 6,826	$ 3,578	**$ 23,043**	$ 23,225

Amounts paid or credited to policyholders include changes in insurance and investment contract liabilities, claims, surrenders, annuity and maturity payments, segregated funds guarantee payments and dividend and experience refund payments for risk-based products. The change in insurance contract liabilities includes adjustments to insurance contract liabilities for changes in fair value of certain invested assets backing those insurance contract liabilities and changes in the provision for future credit losses in insurance contract liabilities. These amounts do not include benefit payment amounts for ASO contracts or redemptions of segregated funds and mutual funds.

For the three months ended December 31, 2011, consolidated amounts paid or credited to policyholders were $6.3 billion, an increase of $2.8 billion from the same period in 2010. The amounts paid or credited to policyholders increased by $949 million in Canada, $206 million in the U.S. and $1.6 billion in Europe, due primarily to increases in the fair value of assets backing these insurance contract liabilities in the fourth quarter of 2011 and a decline in the fair value of these assets in the fourth quarter of 2010.

For the twelve months ended December 31, 2011 consolidated amounts paid or credited to policyholders were $23 billion, a decrease of $182 million from the same period in 2010. The amounts paid or credited to policyholders increased by $302 million in Canada which was offset by decreases of $396 million in the U.S. and $88 million in Europe. In Canada, the increase was attributed to increases in the fair value of the assets backing the insurance contract liabilities as well as increases in the overall benefits paid. The decrease in the U.S. is due to smaller increases in the fair value of the assets backing insurance contract liabilities for the year compared to 2010. The decrease in Europe is primarily the result of normal liability changes in the U.K. relating to lower payout sales, partly offset by fair value movements.

Compared to the third quarter of 2011, amounts paid or credited to policyholders decreased by $486 million attributed to decreases of $477 million in the U.S. and $314 million in Europe which is primarily attributed to smaller increases in the fair value movements. The decrease is partially offset by an increase in Canada of $305 million which is due to higher benefit payments and normal liability changes, partly reduced by smaller increases in the fair value of assets backing the insurance contract liabilities in the fourth quarter compared to the previous quarter.

Other Benefits and Expenses

Other benefits and expenses

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	**Dec. 31 2011**	Dec. 31 2010
Commissions	**$ 409**	$ 372	$ 413	**$ 1,548**	$ 1,477
Operating and administration expenses*	**640**	605	655	**2,448**	2,402
Premium taxes	**76**	64	58	**264**	256
Financing charges	**73**	72	73	**289**	288
Amortization of finite life intangible assets	**28**	24	23	**100**	92
Total	**$ 1,226**	$ 1,137	$ 1,222	**$ 4,649**	$ 4,515

* Operating and administrative expenses exclude the impact of the participating account litigation as well as the favourable impact of $68 million in the prior year resulting from the cost of acquiring Canada Life Financial Corporation in 2003.

Other benefits and expenses for the fourth quarter of 2011 increased by $4 million compared to the fourth quarter of 2010. Compared to the third quarter of 2011, other benefits and expenses increased by $89 million primarily due to the normal seasonality of operating expenses.

For the twelve months ended December 31, 2011, other benefits and expenses increased by $134 million compared to the full year 2010. The increase is mainly attributable to an increase in commissions, higher operating expenses in Canada and Europe, partly offset by lower salary and other expenses in Putnam.

Income Taxes

The Company has a statutory income tax rate of 28.5% and an effective income tax rate of 19.4% for the fourth quarter of 2011. The effective income tax rate is primarily a result of benefits related to non-taxable investment income and lower tax in foreign jurisdictions. Also reducing the effective income tax rate are the impacts of reductions to statutory income tax rates in the Company's Europe segment.

The Company has an effective income tax rate of 17.2% for the twelve months of 2011. The effective income tax rate is primarily reduced for the same reasons as the in-quarter rate and the impact of the adjustment within the insurance contract liabilities for deferred taxes.

Income taxes for the three and twelve month periods ended December 31, 2011 were $181 million and $465 million, respectively, compared to $42 million and $256 million for the same periods in 2010. Earnings before income taxes were $935 million and $2,704 million for the three and twelve month periods ended December 31, 2011, compared to $515 million and $1,964 million for the same periods in 2010.

CONSOLIDATED FINANCIAL POSITION

ASSETS

Assets under administration

	December 31, 2011			
	Canada	United States	Europe	Total
Assets				
Invested assets	**$ 56,374**	**$ 27,403**	**$ 30,851**	**$ 114,628**
Goodwill and intangible assets	**5,089**	**1,769**	**1,697**	**8,555**
Other assets	**3,453**	**3,050**	**12,500**	**19,003**
Segregated funds net assets	**49,622**	**22,359**	**24,601**	**96,582**
Total assets	**114,538**	**54,581**	**69,649**	**238,768**
Proprietary mutual funds and institutional net assets	**3,318**	**122,072**	**–**	**125,390**
Total assets under management	**117,856**	**176,653**	**69,649**	**364,158**
Other assets under administration	**11,458**	**126,247**	**102**	**137,807**
Total assets under administration	**$ 129,314**	**$ 302,900**	**$ 69,751**	**$ 501,965**

	December 31, 2010			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 52,378	$ 25,714	$ 28,550	$ 106,642
Goodwill and intangible assets	5,086	1,717	1,702	8,505
Other assets	4,532	2,929	11,986	19,447
Segregated funds net assets	50,001	21,189	23,637	94,827
Total assets	111,997	51,549	65,875	229,421
Proprietary mutual funds and institutional net assets	3,272	122,781	–	126,053
Total assets under management	115,269	174,330	65,875	355,474
Other assets under administration	11,655	119,766	107	131,528
Total assets under administration	$ 126,924	$ 294,096	$ 65,982	$ 487,002

* During 2011, the Company reclassified its Maxim Series Funds in the United States from other assets under administration to assets under management. The comparative figures reflect the presentation adopted in the current period.

Total assets under administration at December 31, 2011 increased by $15 billion from December 31, 2010. The increase was primarily due to an increase in fair value of invested assets as a result of lower government bond rates and an increase in other assets under administration due to new plans sales and positive currency movement.

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, 2011				
	Canada	United States	Europe	Total	
Bonds					
Government & related	**$ 15,821**	**$ 5,170**	**$ 10,797**	**$ 31,788**	**28%**
Corporate & other	**18,410**	**14,275**	**13,600**	**46,285**	**40**
Sub-total bonds	**34,231**	**19,445**	**24,397**	**78,073**	**68**
Mortgages	**12,020**	**2,810**	**2,602**	**17,432**	**15**
Stocks	**6,089**	**318**	**297**	**6,704**	**6**
Investment properties	**1,067**	**8**	**2,126**	**3,201**	**3**
Sub-total portfolio investments	**53,407**	**22,581**	**29,422**	**105,410**	**92**
Cash and cash equivalents	**498**	**206**	**1,352**	**2,056**	**2**
Loans to policyholders	**2,470**	**4,615**	**77**	**7,162**	**6**
Total invested assets	**$ 56,375**	**$ 27,402**	**$ 30,851**	**$ 114,628**	**100%**

	December 31, 2010				
	Canada	United States	Europe	Total	
Bonds					
Government & related	$ 13,813	$ 4,834	$ 10,339	$ 28,986	27%
Corporate & other	17,070	13,829	12,318	43,217	41
Sub-total bonds	30,883	18,663	22,657	72,203	68
Mortgages	11,841	1,981	2,293	16,115	15
Stocks	5,939	434	327	6,700	6
Investment properties	996	10	1,951	2,957	3
Sub-total portfolio investments	49,659	21,088	27,228	97,975	92
Cash and cash equivalents	301	295	1,244	1,840	2
Loans to policyholders	2,418	4,331	78	6,827	6
Total invested assets	$ 52,378	$ 25,714	$ 28,550	$ 106,642	100%

At December 31, 2011 total invested assets were $114.6 billion, an increase of $8.0 billion from December 31, 2010 primarily due to an increase in fair value as a result of lower government bond rates. The distribution of assets has not changed materially and remains heavily weighted to bonds and mortgages.

Bond portfolio quality

	December 31, 2011		December 31, 2010	
AAA	**$ 29,612**	**38%**	$ 28,925	40%
AA	**12,894**	**17**	11,436	16
A	**22,066**	**28**	19,968	28
BBB	**12,399**	**16**	10,649	14
BB or lower	**1,102**	**1**	1,225	2
Total	**$ 78,073**	**100%**	$ 72,203	100%

Bond portfolio – The total bond portfolio, including short-term investments, was $78.1 billion or 68% of invested assets at December 31, 2011 and $72.2 billion or 68% at December 31, 2010. Federal, provincial and other government securities represented 41% of the bond portfolio compared to 40% in 2010. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 83% rated A or higher. Non-investment grade bonds were $1.1 billion or 1.4% of the bond portfolio at December 31, 2011 compared with $1.2 billion or 1.7% of the bond portfolio at December 31, 2010. The net decrease in non-investment grade bonds resulted from repayments and dispositions partly offset by net rating downgrades.

HOLDINGS OF DEBT SECURITIES OF GOVERNMENTS

	Carrying Value by Rating – December 31, 2011						
	AAA	AA	A	BBB	BB & Lower	Total	Amortized Cost
Canada	$ 9,002	$ 3,335	$ 2,386	$ –	$ –	$ 14,723	**$ 13,110**
U.K.	9,739	533	141	497	–	10,910	**9,506**
U.S.	5,459	1,080	92	10	–	6,641	**6,210**
	24,200	**4,948**	**2,619**	**507**	**–**	**32,274**	**28,826**
Portugal	–	–	–	–	11	11	**16**
Ireland	–	–	–	171	–	171	**199**
Italy	–	–	42	–	–	42	**52**
Greece	–	–	–	–	–	–	**–**
Spain	–	–	40	–	–	40	**50**
	–	**–**	**82**	**171**	**11**	**264**	**317**
Germany	637	3	–	–	–	640	**587**
France	458	14	–	–	–	472	**462**
Netherlands	435	–	–	–	–	435	**403**
Austria	156	–	–	–	–	156	**148**
Australia	45	–	–	–	–	45	**45**
Supranationals	839	4	–	–	–	843	**750**
All other (9 countries)	202	64	–	17	–	283	**264**
	2,772	**85**	**–**	**17**	**–**	**2,874**	**2,659**
Total*	**$ 26,972**	**$ 5,033**	**$ 2,701**	**$ 695**	**$ 11**	**$ 35,412**	**$ 31,802**

* Includes certain funds held by ceding insurers of $3,624 million.

At December 31, 2011, 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 $35.4 billion, consistent with September 30, 2011. Included in this portfolio are debt securities issued by Portugal, Ireland, Italy and Spain, with an aggregate carrying value of $264 million. 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, 2011						
	AAA	AA	A	BBB	BB & Lower	Total	Amortized Cost
Canada	$ 64	$ 467	$ 1,165	$ 31	$ –	$ 1,727	**$ 1,658**
U.K.	138	530	1,078	682	456	2,884	**3,244**
U.S.	1	1,492	1,935	564	36	4,028	**3,977**
	203	**2,489**	**4,178**	**1,277**	**492**	**8,639**	**8,879**
Portugal	–	–	–	–	–	–	**–**
Ireland	–	64	–	–	2	66	**97**
Italy	–	26	34	43	–	103	**149**
Greece	–	–	–	–	–	–	**–**
Spain	45	19	175	–	–	239	**286**
	45	**109**	**209**	**43**	**2**	**408**	**532**
Germany	40	–	37	–	–	77	**75**
France	64	17	226	112	–	419	**510**
Netherlands	8	177	153	–	42	380	**398**
Australia	–	264	185	10	–	459	**463**
All other (13 institutions)	15	138	306	90	–	549	**575**
	127	**596**	**907**	**212**	**42**	**1,884**	**2,021**
Total	**$ 375**	**$ 3,194**	**$ 5,294**	**$ 1,532**	**$ 536**	**$ 10,931**	**$ 11,432**

	Carrying Value by Seniority – December 31, 2011						
	Covered	Senior Debt	Subordinated Debt	Upper Tier Two	Capital Securities	Total	Amortized Cost
Canada	$ 70	$ 970	$ 334	$ 79	$ 274	$ 1,727	**$ 1,658**
U.K.	66	1,213	915	435	255	2,884	**3,244**
U.S.	360	2,646	805	–	217	4,028	**3,977**
	496	**4,829**	**2,054**	**514**	**746**	**8,639**	**8,879**
Portugal	–	–	–	–	–	–	**–**
Ireland	64	–	–	–	2	66	**97**
Italy	26	22	12	–	43	103	**149**
Greece	–	–	–	–	–	–	**–**
Spain	9	59	106	36	29	239	**286**
	99	**81**	**118**	**36**	**74**	**408**	**532**
Germany	40	–	37	–	–	77	**75**
France	10	128	121	55	105	419	**510**
Netherlands	–	282	43	21	34	380	**398**
Australia	–	290	136	–	33	459	**463**
All other (13 institutions)	114	143	157	91	44	549	**575**
	164	**843**	**494**	**167**	**216**	**1,884**	**2,021**
Total	**$ 759**	**$ 5,753**	**$ 2,666**	**$ 717**	**$ 1,036**	**$ 10,931**	**$ 11,432**

At December 31, 2011, the Company held 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 $10.9 billion, compared to $11.2 billion at September 30, 2011. Carrying values decreased mostly as a result of net dispositions. Included in this portfolio is $408 million of debt securities issued by banks and other financial institutions domiciled in Ireland, Italy and Spain. Of the Spain holdings of $239 million, $163 million are Sterling denominated bonds issued by U.K. domiciled Financial Services Authority (FSA) regulated subsidiaries of Spanish financial institutions. The Company does not have any holdings of banks and other financial institutions domiciled in Greece or Portugal. The Company has been reducing its holdings of Ireland domiciled banks in 2011. The Company no longer has any holdings of Allied Irish Bank. At December 31, 2011, the Company held Bank of Ireland impaired securities with an amortized cost of $12 million, against which the impairment provisions are $10 million.

At December 31, 2011, approximately 95% of the $10.9 billion carrying value of debt securities invested in banks and other financial institutions was rated investment grade.

Of the Company's invested assets including certain funds withheld by ceding insurers, 2.7% are invested in bonds of government and financial institutions of Eurozone countries as at December 31, 2011.

Mortgage portfolio

Mortgage loans by type	December 31, 2011				December 31, 2010	
	Insured	Non-insured	Total		Total	
Single family residential	**$ 1,217**	**$ 453**	**$ 1,670**	**9%**	$ 1,622	10%
Multi-family residential	**2,450**	**1,876**	**4,326**	**25**	4,018	25
Commercial	**217**	**11,219**	**11,436**	**66**	10,475	65
Total	**$ 3,884**	**$ 13,548**	**$ 17,432**	**100%**	$ 16,115	100%

Commercial mortgages

	December 31, 2011				December 31, 2010			
	Canada	U.S.	Europe	Total	Canada	U.S.	Europe	Total
Retail & shopping centres	**$ 3,204**	**$ 393**	**$ 1,103**	**$ 4,700**	$ 3,005	$ 336	$ 1,084	$ 4,425
Office buildings	**1,519**	**255**	**656**	**2,430**	1,385	233	536	2,154
Industrial	**1,907**	**1,243**	**265**	**3,415**	1,874	897	270	3,041
Other	**392**	**107**	**392**	**891**	427	51	377	855
Total	**$ 7,022**	**$ 1,998**	**$ 2,416**	**$ 11,436**	$ 6,691	$ 1,517	$ 2,267	$ 10,475

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.

The total mortgage portfolio was $17.4 billion or 15% of invested assets at December 31, 2011 compared to $16.1 billion or 15% of invested assets at December 31, 2010. Total insured loans were $3.9 billion or 22% of the mortgage portfolio.

Equity portfolio

Equity portfolio by type	December 31, 2011		December 31, 2010	
Publicly traded stocks	**$ 5,928**	**60%**	$ 5,878	61%
Privately held equities (at cost)	**776**	**8**	822	8
Sub-total	**6,704**	**68%**	6,700	69%
Investment properties	**3,201**	**32**	2,957	31
Total	**$ 9,905**	**100%**	$ 9,657	100%

Investment properties

	December 31, 2011				December 31, 2010			
	Canada	U.S.	Europe	Total	Canada	U.S.	Europe	Total
Office buildings	**$ 660**	**$ –**	**$ 454**	**$ 1,114**	$ 672	$ –	$ 362	$ 1,034
Industrial	**127**	**–**	**465**	**592**	61	–	412	473
Retail	**82**	**–**	**933**	**1,015**	79	6	906	991
Other	**198**	**8**	**274**	**480**	184	5	270	459
Total	**$ 1,067**	**$ 8**	**$ 2,126**	**$ 3,201**	$ 996	$ 11	$ 1,950	$ 2,957

Equity portfolio – The total equity portfolio was $9.9 billion or 9% of invested assets at December 31, 2011 compared to $9.7 billion or 9% of invested assets at December 31, 2010. The equity portfolio consists of public stocks, private equity and investment properties. Publicly traded stocks increased to over $5.9 billion in 2011 due to stock purchases offsetting market value declines while privately held equities carried at cost declined as a result of dispositions. Increases in investment properties includes market value gains of $143 million in 2011 and $162 million in 2010.

Impaired investments – Impaired investments include bonds in default, bonds with deferred non-cumulative coupons, 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, 2011			December 31, 2010		
Impaired investments by type [1]	Gross amount	Impaired amount	Carrying amount	Gross amount	Impaired amount	Carrying amount
Fair value through profit or loss	**$ 462**	**$ (172)**	**$ 290**	$ 600	$ (287)	$ 313
Available for sale	**80**	**(29)**	**51**	63	(34)	29
Loans and receivables	**71**	**(36)**	**35**	114	(64)	50
Total	**$ 613**	**$ (237)**	**$ 376**	$ 777	$ (385)	$ 392

(1) Includes impaired amounts on certain funds held by ceding insurers.

The gross amount of impaired investments totaled $613 million or 0.5% of portfolio investments (including certain assets reported as funds held by ceding insurers) at December 31, 2011 compared with $777 million or 0.7% at December 31, 2010, a net decrease of $164 million. The main contributor to the decrease was disposals of previously impaired investments with only minimal new in-year impairments.

Impairment provisions at December 31, 2011 were $237 million compared to $385 million at December 31, 2010, a decrease of $148 million. The main contributor to the decrease was the disposal of previously impaired amounts.

Unrealized mark-to-market losses

At December 31, 2011, gross unrealized bond losses totaled $1,498 million ($1,542 million at December 31, 2010), of which $1,422 million are fair value through profit or loss, held primarily in support of insurance contract liabilities. The changes in the fair value of these fair value through profit or loss bonds, excluding investment impairment charges, have been offset by a corresponding change in the value of the insurance contract liabilities on the basis of management's assessment that the Company will ultimately receive all contractual cash flows on these bonds.

Gross unrealized bond losses [(1)]

	December 31, 2011		December 31, 2010	
Classification				
Fair value through profit or loss	**$ 1,422**	**95%**	$ 1,454	94%
Available for sale	**76**	**5**	88	6
Total	**$ 1,498**	**100%**	$ 1,542	100%

(1) Includes unrealized bond losses on certain funds held by ceding insurers.

Provision for future credit losses

The provision for future credit losses is determined following Canadian Institute of Actuaries (CIA) standards and so includes provisions for adverse deviation.

At December 31, 2011, the total provision for future credit losses in insurance contract liabilities was $2,500 million compared to $2,318 million at December 31, 2010; an increase of $182 million which primarily reflects a combination of lower interest rates, currency movement, credit rating activity and normal business activity. Changes to the provision resulting from basis changes and releases in connection with the sale of certain non-investment grade assets were not material.

The aggregate of impairment provisions of $237 million ($385 million at December 31, 2010) and $2,500 million ($2,318 million at December 31, 2010) for future credit losses in insurance contract liabilities represents 2.6% of bond and mortgage assets at December 31, 2011 (2.8% at December 31, 2010).

Derivative Financial Instruments

During the twelve month period ended December 31, 2011, the outstanding notional amount of derivative contracts increased by $787 million. Their exposure to credit risk, which reflects the current fair value of those instruments in a gain position, decreased to $968 million at December 31, 2011 from $984 million at December 31, 2010. The decrease is mainly due to a decline in the fair value of currency related swaps due to the weakening of the Canadian dollar offset by an increase in market values on interest rate swaps due to a decline in interest rates (where the Company is receiving a fixed rate of interest). For an overview of the use of derivative financial instruments, refer to note 29 to the Company's 2011 annual consolidated financial statements.

Goodwill and intangible assets

Goodwill and intangible assets

	December 31	
	2011	2010
Goodwill	**5,401**	5,397
Indefinite life intangible assets	**2,482**	2,440
Finite life intangible assets	**672**	668
Total	**$ 8,555**	$ 8,505

The Company tests goodwill and intangible assets annually for impairment. Impairment charges in the fourth quarter of 2011 were relatively immaterial at $3.5 million relating to the impairment of computer software in the Company's Ireland operations. There were no impairment charges in 2010 related to goodwill and intangible assets.

Goodwill and intangible assets have increased by $50 million from December 31, 2010 due to changes in foreign exchange rates and additions of computer software partially offset by amortization of finite life intangibles and the above noted impairment charge.

Refer to note 10 to the Company's annual consolidated financial statements for further detail. 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	
	2011	2010
Funds held by ceding insurers	**$ 9,923**	$ 9,856
Other assets	**4,283**	4,361
Reinsurance assets	**2,061**	2,533
Deferred tax assets	**1,140**	1,153
Derivative financial instruments	**968**	984
Owner occupied properties	**491**	439
Fixed assets	**137**	121
Total	**$ 19,003**	$ 19,447

Total other general fund assets at December 31, 2011 were $19.0 billion, a decrease of $444 million from December 31, 2010. The decrease is primarily due to a $472 million decrease in reinsurance assets and a $78 million decrease in other assets.

The decrease in reinsurance assets is mainly a result of management actions and changes in assumptions as well as the impact of new business. Refer to note 14 to the Company's annual consolidated financial statements for detail on the movement.

Other assets comprise several items including premiums in the course of collection, prepaid amounts and accounts receivable. Refer to note 12 to the Company's annual consolidated financial statements for a breakdown of other assets.

Segregated funds for the risk of unitholders

Segregated funds

	December 31		
	2011	2010	2009
Stocks	**$ 63,885**	$ 64,468	$ 59,111
Bonds	**21,594**	19,270	16,056
Mortgage loans	**2,303**	2,058	1,744
Investment properties	**5,457**	5,598	6,012
Cash and other	**3,343**	3,433	4,572
Total	**$ 96,582**	$ 94,827	$ 87,495
Year-over-year growth	**2%**	8%	

Segregated funds for the risk of unitholders, which are measured at market values, increased by $1.8 billion to $96.6 billion at December 31, 2011. The change resulted from net deposits of $2.6 billion and positive currency movement of $.9 billion, partially offset by net market value losses of $1.7 billion.

Proprietary mutual funds

Proprietary mutual funds and institutional net assets

	December 31 2011	2010
Mutual funds		
Blend equity	**$ 15,072**	$ 16,779
Growth equity	**9,765**	11,764
Equity value	**13,067**	14,523
Fixed income	**25,795**	26,214
Money market	**146**	149
GWL&A Maxim Funds	**3,087**	2,780
Sub-total	**66,932**	72,209
Institutional accounts		
Equity	**29,828**	28,338
Fixed income	**28,630**	25,506
Sub-total	**58,458**	53,844
Total proprietary mutual funds and institutional accounts	**$125,390**	$126,053

At December 31, 2011, total proprietary mutual funds and institutional accounts comprises $119 billion at Putnam, $3.3 billion at Quadrus and $3.1 billion at GWL&A. Proprietary mutual funds and institutional accounts under management decreased by $0.7 billion primarily as a result of a decline in equity markets of $4.9 billion, offset by the impact of positive currency movement of $3.6 billion and positive net flows of $0.6 billion.

LIABILITIES

Total liabilities

	Dec. 31 2011	Dec. 31 2010
Insurance and investment contract liabilities	**$115,512**	$ 108,196
Other general fund liabilities	**10,570**	11,582
Investment and insurance contracts on account of unit holders	**96,582**	94,827
Total	**$222,664**	$ 214,605

Total liabilities increased by $8.1 billion from $214.6 billion at December 31, 2010 to $222.7 billion at December 31, 2011. The increase was driven by higher insurance and investment contract liabilities of $7.3 billion and an increase in investment and insurance contracts on account of unit holders of $1.8 billion. The increase was offset by a decrease in other general fund liabilities of $1.0 billion discussed in the other general fund liabilities section of the document.

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 Accounting Estimates" section of this document for further details.

Insurance and investment contract liabilities increased by approximately $3.1 billion in Canada, $2.2 billion in the U.S. and $2.0 billion in Europe, primarily due to the impact of new business and the decline in interest rates. The decline in interest rates caused similar changes in the invested assets backing insurance and investment contract liabilities.

The increase in investment and insurance contracts on account of unit holders was a result of net deposits of $2.6 billion and currency movement of $0.9 billion partially offset by net market value losses of $1.7 billion.

Assets supporting insurance and investment contract liabilities

	Participating	Canada	United States	Europe	Total
December 31, 2011					
Bonds	**$ 16,776**	**$ 16,674**	**$ 13,523**	**$ 20,449**	**$ 67,422**
Mortgage loans	**6,894**	**4,738**	**2,369**	**2,506**	**16,507**
Stocks	**4,040**	**1,329**	**–**	**119**	**5,488**
Investment properties	**529**	**20**	**–**	**2,092**	**2,641**
Other assets	**8,100**	**4,338**	**765**	**10,251**	**23,454**
Total assets	**$ 36,339**	**$ 27,099**	**$ 16,657**	**$ 35,417**	**$ 115,512**
Total insurance and investment contract liabilities	**$ 36,339**	**$ 27,099**	**$ 16,657**	**$ 35,417**	**$ 115,512**
December 31, 2010					
Bonds	$ 15,499	$ 15,956	$ 12,695	$ 18,970	$ 63,120
Mortgage loans	6,393	5,069	1,474	2,189	15,125
Stocks	3,960	1,431	–	108	5,499
Investment properties	446	13	–	1,914	2,373
Other assets	8,141	2,946	727	10,265	22,079
Total assets	$ 34,439	$ 25,415	$ 14,896	$ 33,446	$ 108,196
Total insurance and investment contract liabilities	$ 34,439	$ 25,415	$ 14,896	$ 33,446	$ 108,196

Other assets include: premiums in the course of collection, interest due and accrued, other investment receivable, current income taxes, prepaid expenses, accounts receivable, trading accounts assets 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 several years and has helped shield the Company's financial position from interest rate volatility.

Other general fund liabilities

Other general fund liabilities

	December 31	
	2011	2010
Debentures and other debt instruments	**$ 4,313**	$ 4,288
Other liabilities	**4,287**	4,637
Deferred tax liabilities	**929**	766
Capital trust securities	**533**	535
Derivative financial instruments	**316**	165
Funds held under reinsurance contracts	**169**	149
Repurchase agreements	**23**	1,042
Total	**$ 10,570**	$ 11,582

Total other general fund liabilities at December 31, 2011 were $10.6 billion, a decrease of $1.0 billion from December 31, 2010. The decrease is primarily due to a $1.0 billion reduction in repurchase agreements mainly in the U.S. business where fewer repurchase agreement transactions were undertaken in the latter part of 2011.

Other liabilities include current income taxes, accounts payable, pension and other post-employment benefits, deferred income reserve, bank overdraft and other liability balances. Refer to note 17 to the Company's annual consolidated financial statements for a breakdown of the balances and to note 16 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). These products are required to have minimum guarantees of 75% on death and 75% on maturity. The policyholder can choose to increase the level of guarantee up to 100%. The increased guarantee requires the policyholder to pay an additional premium for the enhanced guarantee ("rider"). On October 5, 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).

In Europe, the Company offers UWP products, which are similar to segregated fund products, but with pooling of policyholders' funds and minimum credited interest rates. A GMWB product was introduced in Germany in the first quarter of 2009 and in Ireland in the fourth quarter of 2011.

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

The majority of 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), not including the new products launched on October 5, 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 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.

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 $43 million at December 31, 2011 (nil at December 31, 2010). 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 business is valued using OSFI approved internal models, except for a small segment (less than 1%) of Great-West Life originated business.

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, 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 and interest rates. Equity derivative instruments are used to mitigate changes in the embedded option value attributable to equity market movements. In addition, interest rate derivative instruments are used to mitigate changes in the embedded option value attributable to interest rate movements. 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, 2011, the amount of GMWB product in-force in Canada, the U.S., Ireland and Germany was $1,256 million ($709 million at December 31, 2010).

Segregated funds guarantee exposure

		Investment deficiency by benefit type			
	Market value	Income	Maturity	Death	Total*
Canada	$ 22,883	$ –	$ 42	$ 301	$ 304
United States	8,013	641	–	119	760
Europe	2,214	1	121	134	134
Total	**$ 33,110**	**$ 642**	**$ 163**	**$ 554**	**$ 1,198**

* 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, 2011.

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, 2011. For example, at December 31, 2011, investment guarantees resulted in a deficiency of $554 million with respect to death benefits. This should be interpreted to mean that if all of the policyholders with in the money GMDB had died on December 31, 2011, the Company would have been obligated to pay $554 million more in death benefits than it would have if there had been no investment guarantees. The actual cost to the Company will depend on the trigger event having occurred and the market values at that time. For example, if markets were to remain at December 31, 2011 levels, the GMDB related payments due to investment guarantees over the next twelve months are estimated to be $8 million.

LIFECO CAPITAL STRUCTURE

Debentures and Other Debt Instruments

Debentures and other debt instruments increased by $25 million compared to 2010 primarily due to the amortization of financing costs during the year. Refer to note 16 to the Company's annual consolidated financial statements for further details of the Company's debentures and other debt instruments.

At December 31, 2011, a Putnam subsidiary had a revolving credit facility agreement with a syndicate of banks for US$500 million. At December 31, 2011, it had drawn US$200 million (US$215 million at December 31, 2010) on this credit facility which expires June 17, 2013.

Capital Trust Securities

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life in December 2002, had issued $350 million of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350 million; and Canada Life Capital Trust (CLCT), a trust established by Canada Life in February 2002, had issued $450 million of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450 million. The main features of the trust units are as follows:

Great-West Life Capital Trust Securities (GREATs) – GWLCT issued $350 million of non-voting GREATs. Each holder of the GREATs is entitled to receive a semi-annual non-cumulative fixed cash distribution of $29.975 per GREATs, representing an annual yield of 5.995%, payable out of GWLCT's net distributable funds. Subject to regulatory approval, GWLCT may redeem the GREATs, in whole or in part, at any time and are callable at par on December 31, 2012.

Canada Life Capital Trust Securities (CLiCS) – CLCT issued $450 million of non-voting CLiCS consisting of $300 million of non-voting CLiCS – Series A and $150 million of non-voting CLiCS – Series B. Each holder of the CLiCS – Series A and CLiCS – Series B is entitled to receive a semi-annual non-cumulative fixed cash distribution of $33.395 and $37.645 per CLiCS, respectively, representing an annual yield of 6.679% and 7.529%, payable out of CLCT's net 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, 2012.

At December 31, 2011, the Company and its subsidiaries held $282 million of these securities in investments ($282 million at December 31, 2010).

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, 2011 was $7,722 million, which comprises $5,828 million of common shares, $1,414 million of fixed rate perpetual shares, and $480 million of five-year rate reset perpetual preferred shares.

Common shares

At December 31, 2011, the Company had 949,764,141 common shares outstanding with a stated value of $5,828 million compared to 948,458,395 common shares with a stated value of $5,802 million at December 31, 2010.

During the twelve months ended December 31, 2011, no common shares were purchased for cancellation pursuant to the Company's Normal Course Issuer Bid. Under the Company's Stock Option Plan, 1,305,746 shares were issued for total proceeds of $26 million or $18.37 per share.

Preferred shares

At December 31, 2011, the Company had six series of fixed perpetual preferred shares and two series of rate reset perpetual preferred shares outstanding with aggregate stated values of $1,414 million and $480 million respectively.

The terms and conditions of the $194 million, 5.90% Non-Cumulative First Preferred Shares, Series F, the $300 million, 5.20% Non-Cumulative First Preferred Shares, Series G, the $300 million, 4.85% Non-Cumulative First Preferred Shares, Series H, the $300 million, 4.50% Non-Cumulative First Preferred Shares, Series I, the $230 million, 6.00% Non-Cumulative First Preferred Shares, Series J, the $170 million, 5.65% Non-Cumulative First Preferred Shares, Series L, the $150 million, 5.80% Non-Cumulative First Preferred Shares, Series M, and the $250 million, 3.65% Non-Cumulative First Preferred Shares, Series N, 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.

As at December 31, 2011, the Company, at its option, may redeem the Series F, G, H and I shares. The Company may redeem the Series L shares on or after December 31, 2014 and the Series M shares on or after March 31, 2015. The Company regards the Series F, G, H, I, L, and M shares as part of its core or permanent capital. As such, the Company only intends to redeem the Series F, G, H, I, L, or M shares with proceeds raised from new capital instruments where the new capital instruments represent equal or greater equity benefit than the shares currently outstanding.

In addition, the $230 million of Lifeco Series J First Preferred Shares issued in the fourth quarter of 2008 have a fixed non-cumulative dividend, payable quarterly, of 6.00% per annum up to but excluding December 31, 2013. On December 31, 2013 and on December 31 every five years thereafter the dividend rate will reset so as to equal the then current five-year Government of Canada bond yield plus 3.07%. Lifeco has the right to redeem the Lifeco Series J First Preferred Shares, in whole or in part, on December 31, 2013 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 J First Preferred Share is convertible at the option of the holder on December 31, 2013 and on December 31 every five years thereafter into one Lifeco Series K First Preferred Share, which will carry a floating rate non-cumulative preferential cash dividend, as and when declared by the Board of Directors.

The $250 million of Lifeco Series N First Preferred Shares issued in the fourth quarter of 2010 have a fixed non-cumulative dividend, payable quarterly, of 3.65% per annum up to but excluding December 31, 2015. On December 31, 2015 and on December 31 every five years thereafter the 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 Company regards the two series of subordinated debentures totaling $1,500 million issued by two subsidiary companies, Great-West Lifeco Finance (Delaware) LP and LPII, as comprising part of its core or permanent capital. As such the Company only intends to redeem the subordinated debentures prior to maturity with new capital instruments with a similar or more junior ranking security. The terms and conditions of the $1,000 million subordinated debentures due June 21, 2067 bear interest at a rate of 5.691% until 2017 and, thereafter at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1.49%, unsecured. The terms of the $500 million subordinated debentures due June 26, 2068 bear interest at a rate of 7.127% until 2018 and, thereafter, at a rate equal the Canadian 90-day Bankers' Acceptance rate plus 3.78%, unsecured.

2011 ACTIVITY

During the third quarter of 2011, the Company recognized the surrender of Series F preferred shares with a carrying value of $3 million.

On December 7, 2011, the Company announced a normal course issuer bid for its common shares commencing on December 9, 2011 and terminating on December 8, 2012. During the course of this bid, the Company may purchase up to but not more than 6,000,000 common shares for cancellation.

During the twelve months ended December 31, 2011, the Company paid dividends of $1.23 per common share for a total of $1,169 million and perpetual preferred share dividends of $96.4 million.

Unrealized foreign exchange gains on translation of the net investment in foreign operations for 2011 totaled $207 million and are recorded within accumulated other comprehensive loss included within equity.

For additional information on the Company's capital structure and equity refer to the Company's annual consolidated financial statements.

NON-CONTROLLING INTERESTS

Under IFRS, non-controlling interests are now presented in equity. The Company's non-controlling interests include participating account surplus in subsidiaries, perpetual preferred shares and preferred shares issued by subsidiaries to third parties. Refer to note 19 to the Company's annual consolidated financial statements for further details.

Non-controlling interests

	December 31	
	2011	2010
Participating account surplus in subsidiaries:		
Great-West Life	**$ 510**	$ 461
London Life	**1,651**	1,536
Canada Life	**55**	41
GWL&A	**11**	7
	$ 2,227	$ 2,045
Non-controlling interests in subsidiaries	**$ 3**	$ 2

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. At December 31, 2011, Lifeco held cash and government short-term investments of $5.5 billion ($5.1 billion at December 31, 2010) and government bonds of $25.1 billion ($21.5 billion at December 31, 2010). This includes approximately $0.6 billion ($0.8 billion at December 31, 2010) held directly at the holding company level. In addition, the Company maintains a $200 million committed line of credit with a Canadian chartered bank.

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	
	2011	2010
Liquid assets		
Cash, treasury bills and certificates of deposits	**$ 5,468**	$ 5,108
Government bonds	**25,051**	21,483
Total liquid assets	**30,519**	26,591
Other marketable securities		
Corporate bonds	**32,738**	31,158
Common/Preferred shares (public)	**5,921**	5,877
Residential mortgages – insured	**3,667**	4,059
Total	**$ 72,845**	$ 67,685

Cashable liability characteristics

	December 31	
	2011	2010
Surrenderable insurance and investment contract liabilities		
At market value	$ 14,101	$ 13,133
At book value	33,867	31,595
Total	$ 47,968	$ 44,728

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 $72.8 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	
	2011	2010	2011	2010
Cash flows relating to the following activities:				
Operations	**$ 1,268**	$ 1,629	**$ 4,844**	$ 5,797
Financing	**(291)**	(414)	**(1,245)**	(1,070)
Investment	**(827)**	(1,963)	**(3,407)**	(6,099)
	150	(748)	**192**	(1,372)
Effects of changes in exchange rates on cash and cash equivalents	**(48)**	(77)	**24**	(215)
Increase (decrease) in cash and cash equivalents in the period	**102**	(825)	**216**	(1,587)
Cash and cash equivalents, beginning of period	**1,954**	2,665	**1,840**	3,427
Cash and cash equivalents, end of period	**$ 2,056**	$ 1,840	**$ 2,056**	$ 1,840

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 $102 million from September 30, 2011. Cash flows provided by operations during the fourth quarter of 2011 were $1,268 million, a decrease of $361 million compared to the fourth quarter of 2010. For the three months ended December 31, 2011, cash flows were used by the Company to acquire an additional $827 million of investment assets; $317 million of cash was utilized to pay dividends to the preferred and common shareholders and $26 million was received from other financing activities.

For the twelve months ended December 31, 2011, cash and cash equivalents increased by $216 million from December 31, 2010. Cash flows provided from operations were $4,844 million, a decrease of $953 million compared to 2010. In 2011, cash flows were used by the Company to acquire an additional $3,407 million of investment assets; $1,265 million of cash was utilized to pay dividends to the preferred and common shareholders and $20 million was received from other financing activities.

COMMITMENTS/CONTRACTUAL OBLIGATIONS

Commitments/contractual obligations

		Payments due by period					
At December 31, 2011	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
1) Long-term debt	$ 4,009	$ 305	$ 1	$ 1	$ –	$ –	$ 3,702
2) Operating leases							
– office	424	92	77	66	57	46	86
– equipment	19	9	6	3	1	–	–
3) Purchase obligations	136	65	35	16	16	4	–
4) Credit–related arrangements							
(a) Contractual commitments	675	555	79	41	–	–	–
(b) Letters of credit	see note 4(b) below						
5) Pension contributions	150	150	–	–	–	–	–
Total contractual obligations	$ 5,413	$ 1,176	$ 198	$ 127	$ 74	$ 50	$ 3,788

1) Long-term debt includes long-term financing used in the ongoing operations and capitalization of the Company.

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 LOCs issued are $2,586 million. Total LOC facilities are $3,036 million.

The Reinsurance operation is from time to time an applicant for letters of credit provided mainly as collateral under certain reinsurance contracts for on-balance sheet policy liabilities. The Company through certain of its subsidiaries has provided LOCs as follows:

To external parties

In order for the non-U.S. licensed operating subsidiaries within LRG to conduct reinsurance business in the U.S., they must provide collateral to the U.S. insurance and reinsurance companies to whom reinsurance is provided in order for these companies to receive statutory credit for reserves ceded to LRG. To satisfy this collateral requirement, LRG, as applicant, has provided LOCs issued by a syndicate of financial institutions under an agreement arranged on November 12, 2010, for a five year tranche. The aggregate amount of this LOC facility is US$650 million, and the amount issued at December 31, 2011 was US$479 million, including US$259 million issued by LRG subsidiaries to London Life or other LRG subsidiaries, as described below.

To internal parties

GWL&A Financial Inc. as applicant has provided LOCs in respect of the following:

- US$1,115 million 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. These are provided under a US$1.2 billion agreement with a twenty-year term with a third-party financial institution.
- US$70 million issued to Great-West Life & Annuity Insurance Company of South Carolina as beneficiary, to allow it to receive statutory capital credit in respect thereof.

Canada Life as applicant has provided LOCs relating to business activities conducted within the Canada Life group of companies in respect of the following:

- US$651 million issued to its U.S. branch as beneficiary, to allow Canada Life to receive statutory capital credit for life reinsurance liabilities ceded to Canada Life International Re Limited.
- £117 million issued to Canada Life Ireland Holdings Limited (CLIHL) as beneficiary, to allow CLIHL to receive statutory capital credit in the United Kingdom for a loan made to The Canada Life Group (U.K.) Limited.

  As well, certain LRG subsidiaries as applicants have provided LOCs totaling US$259 million to London Life or other LRG subsidiaries, as beneficiaries to allow them to receive statutory capital credit for reserves ceded to the 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.

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 MCCSR ratio. The target operating range of the MCCSR ratio for Lifeco's major Canadian operating subsidiaries is 175% to 200% (on a consolidated basis).

Great-West Life's MCCSR ratio at December 31, 2011 was 204% (203% at December 31, 2010). London Life's MCCSR ratio at December 31, 2011 was 239% (245% at December 31, 2010). Canada Life's MCCSR ratio at December 31, 2011 was 204% (204% at December 31, 2010). The MCCSR ratio does not include any impact from approximately $0.6 billion of liquidity at the Lifeco holding company level.

At December 31, 2011, the Risk Based Capital (RBC) ratio of GWL&A, Lifeco's regulated U.S. operating company, is estimated to be 430% of the Company Action Level set by the National Association of Insurance Commissioners. GWL&A reports its RBC ratio annually to U.S. insurance regulators.

Under OSFI's Advisory on Conversion to International Financial Reporting Standards by Federally Regulated Entities, the Company's federally regulated subsidiaries have elected to phase in the impact of the conversion to IFRS on capital for MCCSR regulatory reporting purposes over eight quarters which commenced January 1, 2011. As a result 2010 MCCSR has not been restated. In the years following the Company's initial adoption of IFRS, as a result of the proposed 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.

The MCCSR position of Great-West Life is negatively affected by the existence of a significant amount of goodwill and intangible assets, which, subject to a prescribed inclusion for a portion of intangible assets in Canada for MCCSR, are deducted in the calculation of available regulatory capital.

The capitalization of the Company and its operating subsidiaries will also take into account the views 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 also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management pursuant to the annual 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.

OSFI Regulatory Capital Initiatives

OSFI has recently undertaken 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 address a variety of topics including the calculation of capital required in connection with segregated fund guarantees, the measure for evaluating stand-alone capital adequacy and work towards OSFI's New Solvency 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. At this point, the Company cannot predict what the eventual outcome of these initiatives will be.

Capital Allocation Methodology

In 2011, the Company adopted a capital allocation methodology which allocates financing costs in proportion to allocated capital. For the Canadian and European segments (essentially The Great-West Life Assurance Company), this new allocation method tracks the consolidated MCCSR ratio, while for U.S. Financial Services and 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 the leverage ratio of each business unit mirroring the consolidated Company.

The Company's consolidated net earnings are presented on an IFRS basis after capital allocation. The Company's return on common shareholders' equity (ROE) and net earnings are unaffected by the capital allocation methodology as the process does not change the total, just the distribution of leverage capital and net earnings among the business units.

Return on Equity

	Dec. 31 2011	Sept. 30* 2011	Dec. 31* 2010
Canada	**21.7%**	21.7%	22.7%
U.S. Financial Services (1)	**20.7%**	25.0%	25.4%
U.S. Asset Management (Putnam)	**0.9%**	0.6%	(2.5)%
Europe	**17.5%**	16.2%	18.0%
Lifeco Corporate (2)	**(5.5)%**	(5.1)%	(2.5)%
Total Lifeco Net Earnings	**17.6%**	16.7%	14.8%
Total Lifeco Operating Earnings (2)	**16.6%**	16.7%	16.7%

* As a result of an IFRS transition adjustment effective January 1, 2010 reflected in the fourth quarter of 2011, certain comparative ROE calculations were adjusted accordingly.

(1) Includes U.S. Corporate. The decrease in ROE at December 31, 2011 includes the effect of an annual capital re-allocation which was driven by currency movement.

(2) The Company uses operating earnings, a non-IFRS financial measure, which excludes the impact of the provisions described in note 30 in the Company's December 31, 2011 consolidated financial statements.

ROE is the trailing four quarter calculation of net earnings divided by common shareholders' equity.

The Company reported ROE based on net earnings of 17.6% compared to 14.8% at December 31, 2010 on an IFRS basis. The Company achieved a 16.6% ROE on operating earnings, which compares favourably with its long-term objective of 15.0%.

For further information on the capital allocation model and return on equity, refer to the IFRS, Capital Allocation and Canadian Segment presentation posted on the Company's website.

Ratings

Lifeco and its major operating subsidiaries receive strong ratings from the five rating agencies that rate the Company as set out below. The ratings have been affirmed with a stable outlook by Fitch Ratings on June 24, 2011, both A.M. Best Company and DBRS Limited on July 8, 2011 and Standard & Poor's Ratings Services on November 1, 2011. Moody's maintained its ratings on the Company in 2011.

Rating agency	Measurement	Lifeco	Great-West Life	London Life	Canada Life	GWL&A
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–	

Note: There were no rating changes to the Company's credit ratings during 2011.

Risk Management and Control Practices

Insurance companies are in the business of assessing, structuring, pricing and 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 practices used to manage the risks, may be broadly grouped into four categories:

1. Insurance Risks
2. Investment or Market Risks
3. Operational Risks
4. Other Risks

The risk categories above have been ranked in accordance with the extent to which they would be expected to impact the business on an ongoing basis and, accordingly, would require more active management. 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 undertake financial obligations and provide insurance 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 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 Appointed Actuaries report to the Audit Committees confirming compliance with the policies.

The Company also maintains a Corporate Actuarial Valuation Policy, also reviewed and approved by the Boards of Directors of the principal operating subsidiaries, 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 uniformly 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 Company pursuant to a policy for determining dividends to be paid to participating policyholders. The Company maintains Participating Policyholder Dividend Policies, approved by the Boards of Directors of the principal operating subsidiaries, which 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 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.

Claims mortality and morbidity

Risk – 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 misestimates the level of mortality or morbidity, or accepts customers who generate worse mortality and morbidity experience than expected.

> ***Management of risk*** – 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.
>
> In general, 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

Risk – 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.

Management of risk – 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 imposes single event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive.

Healthcare cost inflation

Risk – For Group healthcare products, inflation and utilization will influence the level of claim costs. While inflationary trends are relatively easy to predict, claims utilization is less predictable. 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.

Management of risk – 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

Risk – Annuitants could live longer than was estimated by the Company.

Management of risk – 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.

In general, the Company sets and adheres to retention limits for longevity risk. 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

Risk – 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.

Management of risk – 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.

In general, the Company sets and adheres to retention limits for policy termination risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.

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 most jurisdictions encourage the retention of insurance coverage.

Expense management

Risk – Increases in operating expenses could reduce profit margins.

Management of risk – Expense management programs are regularly monitored to control unit costs and form a component of management incentive compensation plans.

Interest rate pricing and repricing

Risk – 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 than 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.

Management of risk – There is regular and ongoing communication between pricing, valuation and investment management. Both pricing and valuation manage this risk by requiring higher margins where there is less yield certainty.

To measure the risk, the pricing and valuation of death benefit, maturity value and income guarantees associated with variable contracts employ stochastic modelling of future investment returns. Risk exposures are monitored against defined thresholds with escalating actions required if outside the thresholds.

Cash flow matching

Risk – Mismatches between asset and liability cash flows could reduce profit margins in unfavorable interest rate environments.

Management of risk – 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 modelling 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. Changes in the fair value of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time, in accordance with investment policies.

Reinsurance assumed

Risk – 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. If a claim occurs, it is likely to be very large.

> ***Management of risk*** – 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

Risk – 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.

> ***Management of risk*** – 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 or Market Risk

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 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 market risks associated with the business are outlined below.

Interest rate risk

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.

> ***Management of risk*** – Interest rate risk is managed by investing in assets that are suitable for the products sold.
>
> Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims), 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.
>
> 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. In the U.S., the Company has implemented a hedging program to mitigate exposure to rapidly rising interest rates on certain life insurance and deferred annuity liabilities. This program consists of purchasing interest rate swaptions and entering into interest rate futures and swaps.
>
> Interest rate swaps and swaptions are used to manage interest rate risk for term mismatches related to investments backing product liability cash flows.
>
> The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly and appropriate insurance contract liabilities are calculated and held.

Equity market risk

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.

> ***Management of risk*** – 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

Risk – The risk of loss if debtors, counterparties or intermediaries are unable or unwilling to fulfill their financial obligations.

Management of risk – 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 of the Boards of Directors.

Derivative products are traded with counterparties approved by the Boards of Directors or the Investment Committees of the Boards of Directors. 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.

Liquidity risk

Risk – The risk of loss if insufficient funds are available to meet anticipated operating and financing commitments and unexpected cash demands.

There is a risk of default if the Company is unable to post adequate collateral with derivative counterparties.

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 of risk – 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.

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.

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

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 GWL&A 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. 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 2011 by $10 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 of shareholders' equity by $76 million as at December 31, 2011.

Management of risk – Management, from time to time, utilizes forward foreign currency contracts to mitigate the volatility arising from the movement of rates as they impact the translation of operating results denominated in foreign currency.

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

Risk – There is a risk of loss if derivatives are used for inappropriate purposes.

Management of risk – Approved policies only allow derivatives to be used to hedge imbalances in asset and liability positions or as substitutes for cash instruments; they are not used for speculative purposes.

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 2011.

Operational Risks

Following are the significant operational risks associated with the business.

Operational risk

Risk – There is a risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Management of risk – 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

Risk – 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.

Management of risk – Through its wide range of funds, the Company seeks to limit its risk exposure to any particular 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 modelling 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.

Staff recruitment/retention

Risk – The Company is highly dependent on its ability to attract, retain and motivate highly skilled, and often highly specialized, personnel including portfolio managers, research analysts, financial advisors, traders, sales and management personnel and executive officers. The market for these professionals is extremely competitive and is increasingly characterized by the frequent movement of portfolio managers, analysts and salespersons 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.

Management of risk – 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

Risk – 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 have a material effect on the Company's revenues and profits.

Management of risk – 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 (for Putnam, at least eight times each year) to fulfill legal reporting requirements, keep them apprised of business developments, renegotiate contracts and/or address any issues they may have.

ACCESS TO DISTRIBUTION

Risk – 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.

Management of risk – 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

Risk – 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 (including the staged intervention powers of OSFI) which require that solvency and capital standards be maintained by Great-West Life, London Life, CLFC, Canada Life, GWL&A, and their subsidiaries and certain subsidiaries of Putnam. There are considerable risks and benefits related to this structure.

Management of risk – 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:

RATINGS

Risk – 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.

Management of risk – 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

Risk – 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.

Management of risk – 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.

Legal and regulatory risk

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. 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. 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 for segregated funds and other OSFI initiatives, as well as new capital requirements for European entities being reviewed by the European Commission (Solvency II).

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 increase insurance contract liabilities when introduced.

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 and increase the risk of technical insolvency, 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.

> ***Management of risk*** – 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.

Reputational risk

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.

> ***Management of risk*** – 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

Risk – 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.

> ***Management of risk*** – 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 Appointed Actuaries report to the Audit Committees, confirming compliance with the policy.

Support systems and customer service functions

Risk – 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.

Management of risk – 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

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 risk, 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.

Management of risk – 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.

Environmental risk

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.

Management of risk – The Company endeavors 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, bylaws, 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. Commercial assets under management are monitored nationally and measured for environmental performance, which includes GHG emissions, waste diversion and water and 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 conformity with IFRS requires management to make estimates 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, and 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 8 to the Company's annual consolidated financial statements for disclosure of the Company's financial instruments fair value measurement at December 31, 2011.

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 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 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. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements. 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 $188 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 $176 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 $181 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 several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk.

One 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 shareholder net earnings of the Company of a 1% immediate parallel shift in the yield curve. These interest rate changes will impact the projected cash flows.

- The effect of an immediate 1% parallel increase in the yield curve would be to decrease these insurance and investment contract liabilities by approximately $180 million, causing an increase in net earnings of approximately $123 million.
- The effect of an immediate 1% parallel decrease in the yield curve would be to increase these insurance and investment contract liabilities by approximately $731 million, causing a decrease in net earnings of approximately $511 million.

In addition to the above, if this change in the yield curve persisted for an extended period the range of the tested scenarios might change. The effect of an immediate 1% parallel decrease or increase in the yield curve persisting for a year would have immaterial additional effects on the reported insurance and investment contract liability.

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 $27 million, causing an increase in net earnings of approximately $21 million.
- A 10% decrease in equity markets would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $77 million, causing a decrease in net earnings of approximately $57 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 $389 million causing an increase in net earnings of approximately $292 million.
- A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $424 million causing a decrease in net earnings of approximately $316 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 $55 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 termination rates at the renewal period for renewable term policies in Canada and Reinsurance. Industry experience has guided our persistency assumption for these products as our own experience is very limited. A 10% adverse change in the best estimate policy termination assumption would cause a decrease in net earnings of approximately $435 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 re-sets (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, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features – Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is 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 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 uncertain tax provisions. Accordingly, the provision for income taxes represents management's interpretation of the relevant tax laws and its estimate of current and deferred income tax implications of the transactions and events during the period. Deferred tax assets and liabilities are recorded based on expected deferred 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 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 taxes will be payable as anticipated and/or the amount and timing of receipt or use of the tax related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived 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. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. 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 23 to the Company's 2011 annual consolidated financial statements.

Accounting for pension and other post-employment benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, the period of time over which benefits will be paid, as well as the appropriate discount rate for accrued benefit obligations. 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.

Significant assumptions – employee future benefits

	Defined benefit pension plans		Other post-employment benefits	
At December 31	2011	2010	2011	2010
Weighted average assumptions used to determine benefit cost				
Discount rate	**5.5%**	6.2%	**5.5%**	6.3%
Expected long-term rate of return on plan assets	**6.1%**	6.3%	**–%**	–%
Rate of compensation increase	**3.6%**	3.9%	**–%**	–%
Weighted average assumptions used to determine accrued benefit obligation				
Discount rate	**5.1%**	5.5%	**5.1%**	5.5%
Rate of compensation increase	**3.5%**	3.6%	**–%**	–%

Weighted average health care trend rates – In determining the expected cost of health care benefits, health care costs were assumed to increase by 6.7% in 2011 and gradually decrease to a level of 4.5% over 14 years. For 2011, the impact of a 1% change to assumed health care rates on the accrued post-employment benefit obligation is an approximate $41 million ($40 million in 2010) increase for a 1% increase to rates and an approximate $34 million ($34 million in 2010) decrease for a 1% decrease to rates. Similarly, the impact on the post-employment current service cost and interest cost of a 1% increase to rates is an approximate $2 million ($2 million in 2010) increase and a 1% decrease to rates is an approximate $2 million ($2 million in 2010) decrease.

Significant assumptions – The discount rate assumption used in determining pension and post employment benefit obligations and net benefit expense reflects the market yields, as of the measurement date, on high quality debt instruments with cash flows that match expected benefit payments.

The overall expected rate of return on plan assets for the year is determined based on long term market expectations prevailing at the beginning of the year for each asset class, weighted by portfolio allocation, less an allowance in respect of all expenses expected to be charged to the fund. Anticipated future long term performance of individual asset categories is considered, reflecting management's best estimates of expected future inflation and expected real yields on fixed income securities and equities. Other assumptions are based on actual plan experience and best estimates.

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. Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. The mortality assumptions applied by the Company take into consideration average life expectancy, including allowances for future mortality improvement as appropriate, and reflect variations in such factors as age, gender and geographic location. The assumptions also take into consideration an estimation of future improvements in longevity. This estimate is subject to considerable uncertainty and judgment is required in establishing this assumption.

The mortality tables are reviewed at least annually, and assumptions are in accordance with accepted actuarial practice in Canada. 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 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 significant assumptions

	Defined benefit pension plans		Other post–employment benefits	
	Obligation	Expense	Obligation	Expense
Discount rate				
Increase	(458)	(11)	(45)	1
Decrease	594	13	55	(1)
Expected long-term rate of return on plan assets				
Increase	n/a	(31)	n/a	n/a
Decrease	n/a	31	n/a	n/a
Rate of compensation increase				
Increase	99	14	–	–
Decrease	(89)	(12)	–	–
Health care trend rate				
Increase	n/a	n/a	41	2
Decrease	n/a	n/a	(34)	(2)

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 $123 million ($118 million in 2010) to the pension plans and made benefit payments of $17 million ($17 million in 2010) for post-employment benefits. The Company expects to increase contributions to its defined benefit pension plans by approximately $7 million in 2012 as disclosed in the commitments/contractual obligations table within this document.

International Financial Reporting Standards – In February 2008, the Canadian Institute of Chartered Accountants (CICA) announced that Canadian GAAP (CGAAP) for publicly accountable enterprises would be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

The Company developed an IFRS changeover plan which addressed key areas including accounting policies, financial reporting, disclosure controls and procedures, information systems, education and training and other business activities. The Company commenced reporting under IFRS for the quarter ending March 31, 2011 including presenting a transitional balance sheet at January 1, 2010 and reporting under IFRS for comparative periods, with the required reconciliations presented. The Company has monitored the impact of other changes to financial reporting processes, disclosure controls and procedures, and internal controls over financial reporting. The initial adoption of IFRS has not had a considerable impact on the disclosure controls and procedures for financial reporting. The Company's information technology, data systems and business processes were not impacted significantly by the changeover to IFRS.

The first IFRS compliant consolidated financial statements were prepared as at December 31, 2011. The impact to equity as a result of the transition to IFRS on January 1, 2010, was a decrease to shareholder's accumulated surplus of $646 million and an increase to the participating account surplus of $41 million.

These financial statements were prepared in accordance with IFRS 1 *First-time Adoption of International Reporting Standards*. Please refer to note 3 to the December 31, 2011 financial statements of the Company for reconciliations from the previous CGAAP to IFRS for consolidated equity at January 1, 2010 and December 31, 2010, consolidated comprehensive income for the twelve months ended December 31, 2010, reconciliation of the consolidated balance sheets at January 1, 2010.

The Company has monitored and assessed the impact of the adoption of IFRS on each of the business units and reporting segments. The operating results of each of the respective business units have been restated on an IFRS basis within the Segmented Operating Results.

Adoption of IFRS required that the IFRS be applied on a retroactive basis with the exception of those specifically exempted under IFRS 1. Absent an exemption, any changes to existing standards were applied retroactively and reflected in the opening balance sheet of the comparative period. Noted within the summary tables are the Company's exemptions applied upon transition. Other exemptions available under IFRS were reviewed and are either not applicable or did not have a significant impact on the Company's financial statements.

The following table sets out the transition and post-implementation impact of key IFRS 1 optional transitional exemptions on the financial statements.

IFRS Accounting Policies	Impact of IFRS 1 Optional Exemptions on the Financial Statements
a) Employee benefits cumulative unamortized actuarial gains and losses	The Company has elected to apply the exemption available to recognize all cumulative unamortized actuarial gains and losses of the Company's defined benefit plans in equity upon transition to IFRS. Subsequent to transition, the Company will continue to use the corridor approach available under the present IAS 19, *Employee Benefits* standard for deferring recognition of actuarial gains and losses that reside within the corridor.
b) Cumulative translation losses of foreign operations	The Company has elected to reset its cumulative translation adjustment (CTA) account for all foreign operations to zero as of January 1, 2010. Future gains or losses on disposal of any foreign operation will therefore exclude translation differences that arose before January 1, 2010.
c) Redesignation of financial assets	The Company has elected to redesignate certain available-for-sale financial assets to the fair value through profit or loss classification and certain financial assets classified as held for trading under the previous CGAAP to available-for-sale. The redesignation will have no overall impact on the Company's opening surplus at transition but will result in a reclassification within equity.
d) Fair value as deemed cost for owner occupied properties	The Company has elected to measure owner occupied properties at fair value as its deemed cost at the January 1, 2010 transition date. Subsequent to this date, owner occupied properties are carried at deemed cost less amortization.
e) Business combinations	The Company has applied the IFRS 1 business combinations exemption and has not restated business combinations that took place prior to the January 1, 2010 transition date, which has resulted in no impact on opening figures. The Company will apply IFRS 3, *Business Combinations* prospectively for business combinations occurring on or after January 1, 2010.

The following table identifies key differences between CGAAP and IFRS accounting policies. The impact of these changes in accounting policies was reviewed at transition and could continue to impact operating results under IFRS.

IFRS Accounting Policies	Impact of Mandatory Accounting Policy Changes on the Financial Statements
f) Investment properties	Under IFRS, real estate properties have been classified between investment properties and owner occupied properties. Real estate not classified as owner occupied properties (see accounting policy g below) will be accounted for as investment properties and measured at fair value under IFRS, for both investment properties backing surplus and liabilities. In addition, deferred net realized gains permitted under CGAAP and not permitted under IFRS were derecognized upon transition to IFRS.
g) Owner occupied properties	For all owner occupied properties, the Company has elected to measure the fair value as its deemed cost at transition. Under IFRS, the cost model is now used to value such properties with depreciation expensed within the Statements of Earnings.
h) Deferred acquisition costs and deferred income reserves on investment contracts	The majority of CGAAP policyholder and reinsurance contract liabilities will be classified as insurance contracts under IFRS. Contracts where significant insurance risk does not exist will be classified as investment contracts under IFRS and accounted for either at fair value or at amortized cost. If significant insurance risk exists, the contract is classified as an insurance contract and will be measured under the Canadian Asset Liability Method (CALM). IFRS allows for the recognition of both deferred acquisition costs (DAC) and deferred income reserves (DIR) related to investment contracts. Certain DAC that were not incremental to the contract and were deferred and amortized into consolidated net earnings over the anticipated period of benefit under CGAAP, will now be recognized as an expense under IFRS in the period incurred. DAC that are incremental in nature were reclassified from investment contracts to other assets under IFRS and will continue to be deferred and amortized.
i) Employee benefits – vested past service cost and other	Differences exist between IFRS and CGAAP in determining employee benefits, including the timing of the recognition of unamortized past service costs and certain service awards. In addition, under IFRS all vested past services are recognized in net earnings immediately.
j) Uncertain income tax provisions	There is a difference in the recognition and measurement of uncertain income tax provisions between the previous CGAAP and IFRS. Under IFRS, tax uncertainties which meet the more likely than not threshold for recognition are measured. Measurement of the provision is based on the probability weighted average approach.
k) Other adjustments	Several additional items have been identified where the transition from CGAAP to IFRS resulted in recognition changes. These adjustments include the capitalization of transaction costs on financial liabilities previously classified as other than held for trading (HFT) financial liabilities under CGAAP, adoption of the graded vesting method to account for all stock options, the adoption and classification as liabilities for share-based payments that are cash-settled and the measurement of preferred shares previously recorded at fair value now recorded at amortized cost under IFRS.
l) Segregated funds	Under IFRS, the assets and liabilities of segregated funds are now included at fair value on the Consolidated Balance Sheets as a single line within assets and liabilities.
m) Presentation of reinsurance accounts	Reinsurance accounts have been presented on a gross basis on the Consolidated Balance Sheets with reinsurance assets and corresponding liabilities having no impact on shareholders' equity. Gross presentation of the reinsurance revenues and expenses will also be required within the Statements of Earnings.
n) Non-controlling interests	Under CGAAP non-controlling interests were presented in the mezzanine between liabilities and equity. IFRS requires presentation of non-controlling interests within the equity section distinct from common shareholders' equity on the Consolidated Balance Sheets.
o) Capital Trust Securities	Diluted earnings per share calculations under IFRS require the Company to presume that the conversion of trust units to shares could and will be exercised. The trust units of the Great-West Life Capital Trust (GWLCT) have contingent conversion rights into Lifeco common shares. The shares may have a dilutive effect in the calculation of diluted earnings per share, the expected impact of which on diluted earnings is less than $0.01 per share.
p) Goodwill and intangible assets	Goodwill and intangible assets under IFRS will be measured using the cost model, based on the recoverable amount which is the greater of value in use and fair value less costs to sell. At each reporting date, the Company is required to review goodwill and intangible assets for indicators of impairment or reversals of impairment. In the event that certain conditions have been met, the Company would be required to reverse the impairment charge or a portion thereof. Under CGAAP, reversals of impairment charges were not permitted.

For a complete listing of IFRS accounting policies and details of the financial impact of the initial adoption of IFRS, refer to notes 2 and 3 of the consolidated financial statements.

IFRS that are proposed to change in the future that will impact the Company are included in the following table:

Revised Standard	**Summary of Proposed Changes**
IFRS 4 – Insurance Contracts	The International Accounting Standards Board (IASB) issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The proposal would require 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. This is vastly different from the connection between insurance assets and liabilities considered under the CALM method and may cause significant volatility in the results of the Company. The exposure draft also proposes changes to the presentation and disclosure within the financial statements. The Company will continue to measure insurance contract liabilities using CALM until such time when a new IFRS for insurance contract measurement is issued. A final standard is not expected to be implemented for several years; the Company continues to actively monitor developments in this area.
IFRS 9 – Financial Instruments	The IASB tentatively approved the adoption of the proposed new IFRS 9, *Financial Instruments* standard to be effective January 1, 2015. The new standard requires all financial assets to be classified on initial recognition at amortized cost or fair value while eliminating the existing categories of available for sale, held to maturity, and loans and receivables. The new standard also requires: • embedded derivatives to be assessed for classification together with their financial asset host; • a single expected loss impairment method be used for financial assets; and • amendments to the criteria for hedge account and measuring effectiveness. 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, *Financial Instruments* – impairment methodology, hedge accounting, and asset and liability offsetting – are finalized. The Company continues to actively monitor developments in this area.
IFRS 10 – Consolidated Financial Statements **IFRS 11 – Joint Arrangements;** **IFRS 12 – Disclosure of**	Effective January 1, 2013, the Company plans to adopt IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interest in Other Entities* for the presentation and preparation of its consolidated financial statements. IFRS 10, *Consolidated Financial Statements* uses consolidated principles based on a revised definition of control. The definition of control is 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. IFRS 11, *Joint Arrangements* separates jointly controlled entities between joint operations and joint ventures. The standard has eliminated the option of using proportionate consolidation for accounting in the interests in joint ventures, now requiring an entity to use the equity method of accounting for interests in joint ventures. IFRS 12, *Disclosure of Interests in Other Entities* proposes new disclosure requirements for the interest an entity has in subsidiaries, joint arrangements, associates, and structured entities. The standard requires enhanced disclosure including how control was determined and any restrictions that might exist on consolidated assets and liabilities presented within the financial statements. The Company is currently evaluating the impact of the above standards on its consolidation procedures and disclosure in preparation of the January 1, 2013 effective date.
IFRS 13 – Fair Value Measurement	Effective January 1, 2013, the Company will adopt the guidance in IFRS 13, *Fair Value Measurement* for the measurement and disclosure of assets and liabilities held at fair value. The standard refines the measurement and disclosure requirements and aims to achieve consistency with other standard setters to improve the understandability to financial statement users. The Company is currently evaluating the impact this standard will have on its financial statements when it becomes effective January 1, 2013.
IAS 1 – Presentation of Financial Statements	Effective January 1, 2013, the Company will adopt the guidance in the amended IAS 1, *Presentation of Financial Statements*. The amended standard includes requirements that other comprehensive income (OCI) be classified by nature and grouped between those items that will be reclassified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified. Other amendments include changes to discontinued operations and overall financial statement presentation. The Company is evaluating the impact this standard will have on the presentation of its financial statements.
IAS 17 – Leases	The IASB issued an exposure draft proposing 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. The new classification would be the right-of-use model, replacing the operating and finance lease accounting models that currently exist. The full impact of adoption of the proposed changes will be determined once the final lease standard is issued, which is proposed to be in 2012.
IAS 19 – Employee Benefits	The IASB published an amended version of this standard in June 2011 that eliminates the corridor approach for actuarial gains and losses resulting in those gains and losses being recognized immediately through OCI while the net pension asset or liability would reflect the full funded status of the plan on the Consolidated Balance Sheets. Further, the standard includes changes to how the defined benefit obligation and the fair value of the plan assets would be presented within the financial statements of an entity. The Company will continue to use the corridor method until January 1, 2013 when the revised standard for employee benefits becomes effective.

The Company continues to monitor these potential changes proposed by the IASB and considers the impact changes in these standards could have on the Company's operations.

SEGMENTED OPERATING RESULTS

The consolidated operating results of Lifeco including the comparative figures are presented on an IFRS basis after capital allocation. The operating results include Great-West Life, London Life, Canada Life, GWL&A and Putnam.

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

In Canada, 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 Freedom 55 Financial™ and Great-West Life financial security advisors and Canada Life distribution channels, which include managing general agencies (MGAs) and their associated brokers, independent brokers and consultants as well as intercorporate agreements with other financial institutions.

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 Resource Centres located across the country, we distribute our products through financial security advisors, brokers, and consultants. The Company offers a wide range of products and services including Group Life, Accidental Death and Dismemberment, Disability, Health, and Dental protection to over 30,000 plan sponsor customers.

Through its Canada Life subsidiary, the Company writes new creditor and direct marketing business, offering effective benefit solutions for large financial institutions, credit card companies, auto dealers, alumni and association groups. Canada Life is a recognized leader in the creditor insurance business with $1.9 billion in annual direct premium.

MARKET OVERVIEW

PRODUCTS AND SERVICES

Individual Insurance

The Company provides a wide 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
- Manages largest portfolio of life insurance in Canada as measured by premium
- Pre-eminent provider of individual disability and critical illness insurance with 30% market share of in-force premium

PRODUCTS AND SERVICES

Individual Life Insurance
- Term life
- Universal life
- Participating Life

Living Benefits
- Disability
- Critical Illness

DISTRIBUTION

Associated with:

Great-West Life Distribution
- 1,817 Great-West Life financial security advisors
- 2,541 advisors associated with a number of intercorporate arrangements
- 6,522 independent brokers

London Life Distribution
- 3,383 Freedom 55 Financial security advisors

Canada Life Distribution
- 8,884 independent brokers associated with 56 Managing General Agencies (MGAs)
- 1,771 advisors associated with 17 national accounts
- 3,283 Investors Group consultants who actively sell Canada Life products
- 278 direct brokers and producer groups

Wealth Management

The Company provides a wide 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 85 London Life Segregated funds to individual Freedom 55 Financial™ clients, 73 Canada Life segregated funds to individual Canada Life clients, 78 Great-West Life segregated funds to individual Great-West Life clients and 228 segregated funds to Envision Group Capital Accumulation Fund clients.

Quadrus offers 42 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
- 26% market share of individual segregated funds
- 18% market share of group capital accumulation plans

Products and Services

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

  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

Distribution

Associated with:

Great-West Life Distribution
- 1,817 Great-West Life financial security advisors
- 2,541 advisors associated with a number of intercorporate arrangements
- 6,522 independent brokers

London Life Distribution
- 3,383 Freedom 55 Financial security advisors

Canada Life Distribution
- 8,884 independent brokers associated with 56 Managing General Agencies (MGAs)
- 1,771 advisors associated with 17 national accounts
- 3,283 Investors Group consultants who actively sell Canada Life products
- 278 direct brokers and producer groups

Quadrus Investment Services Ltd. (also included in Great-West Life and London Life advisor counts):
- 3,722 investment representatives

Group Retirement Services
- Benefits Consultants, Brokers and Affiliated advisors (as above)

Group Insurance

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

Market Position
- Employee benefits for more than 31,000 plan sponsors
- 22% market share for employee/employer plans
- Leading market share for creditor plans

Products and Services

Life and Health
- Life
- Disability
- Critical Illness
- Accidental death & dismemberment
- Dental plans
- Expatriate coverage
- Extended health care plans

Creditor
- Creditor life
- Creditor disability
- Creditor job loss
- Creditor critical illness

Distribution
- 113 account managers and sales staff located in 17 Group Offices
- 104 Regional Employee Benefits Managers and Selectpac Specialists located in Resource Centres

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 highly 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, technology, cost and 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 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Premiums and deposits	**$ 4,931**	$ 4,539	$ 4,865	**$ 19,381**	$ 18,774
Sales	**2,301**	1,890	2,569	**8,944**	9,539
Fee and other income	**266**	269	263	**1,088**	1,025
Net earnings – common shareholders	**244**	235	237	**986**	975
Total assets	**$ 114,538**	$ 112,072	$ 111,997		
Proprietary mutual funds net assets	**3,318**	3,179	3,272		
Total assets under management	**117,856**	115,251	115,269		
Other assets under administration	**11,458**	11,242	11,655		
Total assets under administration	**$ 129,314**	$ 126,493	$ 126,924		

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Individual Insurance	**$ 41**	$ 102	$ 45	**$ 291**	$ 270
Wealth Management	**80**	11	83	**264**	316
Group Insurance	**101**	96	98	**357**	382
Corporate	**22**	26	11	**74**	7
Net earnings	**$ 244**	$ 235	$ 237	**$ 986**	$ 975

BUSINESS UNITS – CANADA

Net earnings attributable to common shareholders for the fourth quarter of 2011 were $244 million compared to $237 million for the fourth quarter of 2010. The increase is primarily due to higher net earnings from Group Insurance and Corporate, partially offset by lower Individual Insurance and Wealth Management net earnings.

For the twelve months ended December 31, 2011, net earnings attributable to common shareholders were $986 million compared to $975 million in 2010.

INDIVIDUAL INSURANCE

2011 Developments

- Sales in the fourth quarter were $117 million, up 3% compared to the fourth quarter of 2010. For the twelve months ended December 31, 2011, sales were $425 million, an increase of 6% over the same period last year.
- Net earnings for the fourth quarter were $41 million, down 9% compared to the fourth quarter of 2010. For the twelve months ended December 31, 2011, net earnings were $291 million, up 8% over the same period last year.
- Premiums and deposits of $985 million were 8% higher than the fourth quarter of 2010. For the twelve months ended December 31, 2011, premiums and deposits of $3.7 billion were 8% higher than the same period last year.
- The former Individual Insurance and Investment Products (IIIP) business unit was reorganized into two business units: Individual Insurance and Wealth Management. A primary objective of this reorganization is to enhance the Company's market responsiveness and focus on profitable organic growth.
- Individual Life Insurance sales have increased significantly in 2011 driven primarily by participating life sales, which were 12% ahead of the same time period last year, particularly in the independent distribution channels.
- The Company launched an updated Great-West Life participating life insurance product during the third quarter.

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Premiums and deposits	**$ 985**	$ 899	$ 912	**$ 3,673**	$ 3,396
Sales	**117**	98	114	**425**	401
Net earnings	**41**	102	45	**291**	270

Premiums and deposits

Individual Life premiums for the quarter increased by $70 million to $908 million compared with the same quarter last year. The increase was primarily due to a 10% increase in participating life premiums. Living Benefits premiums for the quarter increased by $3 million to $77 million compared with the same period last year.

For the twelve months ended December 31, 2011, Individual Life premiums increased by $262 million to $3.4 billion compared to the same period last year. The increase was primarily due to a 9% increase in participating life premiums. Living Benefits premiums increased by $15 million to $304 million compared to the same period last year.

Individual Insurance premiums increased by $86 million to $985 million compared to the previous quarter, primarily due to a 13% increase in participating life premiums due to the normal seasonality of life insurance sales.

Sales

For the quarter, Individual Life sales increased by $3 million to $106 million compared with the same quarter last year. The increase was primarily due to continued strong participating life sales. Sales of Living Benefits of $11 million were comparable with the same quarter last year.

For the twelve months ended December 31, 2011, Individual Life sales increased by $24 million to $381 million compared to the same period last year, primarily due to strong participating life sales. Sales of Living Benefits of $44 million were comparable to the same period last year.

Individual Life sales increased by $19 million to $106 million compared with the previous quarter, the increase was primarily driven by higher participating life sales due to the normal seasonality of life insurance sales. Living Benefits sales remained constant with the previous quarter of $11 million.

Net earnings

Net earnings for the quarter decreased by $4 million compared with the fourth quarter of 2010. This decrease is primarily due to net unfavourable basis changes and management actions, offset by favourable mortality results and lower new business strain.

For the twelve months ended December 31, 2011, net earnings increased by $21 million compared to the same period last year, primarily due to net favourable basis changes and management actions related to the recognition of mortality improvement in the individual life insurance contract liabilities following adoption of the revised Actuarial Standards of Practice; partially offset by the net strengthening resulting from the lower interest rate environment in Canada. In addition to the basis changes and management actions, the twelve month net earnings increased from favourable increases in mortality and morbidity results, offset by higher new business strain and unfavourable investment and surrender experience.

Net earnings decreased by $61 million compared with the previous quarter, primarily due to lower basis changes and management actions in the third quarter related to the recognition of mortality improvement in the individual life insurance contract liabilities following adoption of the revised Actuarial Standards of Practice. This was partially offset by the net strengthening resulting from the lower interest rate environment in Canada.

Net earnings attributable to the participating account were $99 million in 2011 compared to a net loss of $25 million in the fourth quarter of 2010. For the twelve months ended December 31, 2011, net earnings attributable to the participating account were $108 million compared with a net loss of $24 million for the same period in 2010. Net earnings attributable to the participating account increased $97 million from the third quarter of 2011.

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 2011 in terms of both earnings and revenue growth. Our 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 2012 and beyond. We are reviewing our strategies and re-aligning aspects of our organization with the goal of achieving superior organic growth from profitable revenues.

In 2012, we 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.

Our 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 us to continue to achieve market leading sales in 2012. We 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

2011 DEVELOPMENTS

- Sales in the fourth quarter of 2011 were $2.0 billion, compared to sales of $2.3 billion in 2010. Sales were $8.0 billion for the twelve month period compared to $8.6 billion in 2010.
- Net earnings were down $3 million to $80 million compared to the fourth quarter of 2010. For the twelve months ended December 31, 2011, net earnings decreased by $52 million to $264 million compared to the same period last year.
- Premiums and deposits of $2,134 million were 3% lower than the fourth quarter of 2010 due to lower guaranteed savings and payout annuity sales. For the twelve months ended December 31, 2011, premiums and deposits increased by $66 million to $8.5 billion compared to the same period in the prior year.
- Fee and other income for the fourth quarter was $220 million and for the twelve months ended December 31, 2011 was $905 million, up 6% compared to the twelve months of 2010.
- During 2011, Group Retirement Services launched Performers™, a group Registered Retirement Savings Plan (RRSP) and Deferred Profit Sharing Plan (DPSP) product for small business owner plans with up to 35 employees. This product is well positioned to support the need for increased penetration of retirement plans among small and medium sized businesses.
- A new high net worth product was launched in September of 2011 through the Quadrus Group of Funds which provides clients with greater than $500,000 of invested assets, more flexibility in fee structure and rates.

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Premiums and deposits	**$ 2,134**	$ 1,859	$ 2,210	**$ 8,542**	$ 8,476
Sales	**2,026**	1,648	2,327	**7,983**	8,602
Fee and other income	**220**	223	222	**905**	851
Net earnings	**80**	11	83	**264**	316

Premiums and deposits

Premiums and deposits to proprietary retail investment funds for the fourth quarter increased by $68 million to $934 million compared with the same quarter last year, driven by an increase in new and existing client deposits. Premiums and deposits to retail guaranteed interest rate and payout annuity products of $73 million were $129 million lower than the fourth quarter of 2010. This decrease is primarily due to the very low interest rate environment resulting in fewer clients electing these interest-sensitive products. Premiums and deposits to group retirement products of $1,127 million were $15 million lower compared to the same quarter last year. This result was driven by strong in-quarter net deposits to group capital accumulation plans offset by a decline in single premium group annuity premiums.

For the twelve months ended December 31, 2011, premiums and deposits to proprietary retail investment funds increased by $601 million to $3.8 billion compared to the same period last year. Premiums and deposits to retail guaranteed interest rate and payout annuity products were $403 million for the last twelve months, $444 million lower than the same period last year. The decline in deposits to these products was primarily due to fewer clients electing these interest-sensitive products in a low interest environment. Premiums and deposits to group retirement products decreased by $91 million to $4.3 billion compared to the same period last year, primarily due to a significant decrease in investment only deposits.

Compared to the previous quarter, premiums and deposits to proprietary retail investment funds increased by $119 million, retail guaranteed interest rate and payout annuity products were comparable with the previous quarter and group retirement products increased by $156 million.

Sales

Sales of proprietary retail investment funds increased by $5 million to $1,177 million compared to the same quarter last year. Sales of retail guaranteed interest rate and payout annuity products of $199 million were $119 million lower than the same quarter last year. This increase in investment fund products and decrease in guaranteed interest rate and payout annuity product sales is primarily due to the low interest rate environment. Sales of group retirement products of $447 million were $184 million less than the same quarter last year primarily due to lower investment only sales.

For the twelve months ended December 31, 2011, sales of proprietary retail investment funds increased by $143 million to $4.7 billion compared to the same period last year. Sales of retail guaranteed interest rate and payout annuity products decreased by $327 million to $862 million compared to the same period last year for the same reason as noted for the fourth quarter above. Sales of group retirement products decreased by $554 million to $1.5 billion compared to the same period last year due to a significant decline in investment only sales.

Compared to the previous quarter, sales of proprietary retail investment funds increased by $211 million, retail guaranteed interest rate and payout annuity products increased by $21 million and group retirement products increased by $121 million, reflecting the normal cyclical increase in fourth quarter sales.

Fees and other income

Assets under administration

	December 31 2011	December 31 2010
Assets under management		
Individual Retirement & Investment Services		
Risk-based products	**$ 7,278**	$ 7,146
Segregated funds	**22,702**	23,094
Proprietary mutual funds	**3,318**	3,272
Group Retirement Services		
Risk-based products	**6,788**	6,597
Segregated funds	**26,920**	26,907
	$ 67,006	$ 67,016
Other assets under administration (1)		
Individual Retirement & Investment Services	**4,140**	4,129
Group Retirement Services	**729**	2,092
Total	**$ 4,869**	$ 6,221
Summary by business/product		
Individual Retirement & Investment Services	**$ 37,438**	$ 37,641
Group Retirement Services	**$ 34,437**	$ 35,596
Total assets under administration	**$ 71,875**	$ 73,237

(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.

Fee and other income for the quarter decreased by $2 million compared with the same quarter last year.

For the twelve months ended December 31, 2011, fee and other income increased by $54 million compared to the same period last year. This was driven by the higher proprietary investment fund assets through the period primarily due to the positive impact of the equity markets through the first two quarters of the current year.

Fee and other income decreased by $3 million compared with the previous quarter due to the decline in proprietary investment fund assets caused by the decline in equity markets in the fourth quarter of 2011.

Net earnings

Net earnings for the quarter decreased by $3 million compared with the same quarter last year.

For the twelve months ended December 31, 2011, net earnings decreased by $52 million compared to last year primarily due to the adoption in the third quarter of the revised Actuarial Standards of Practice for mortality improvement in payout annuity mortality, resulting in a net increase in insurance contract liabilities and a decrease in net earnings.

Net earnings increased by $69 million compared to the previous quarter primarily due to the mortality improvement change in the third quarter noted above.

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.

Wealth Management delivered strong results in 2011 considering the challenging economic environment. 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 2012 and beyond. Wealth Management's strategy and organization are focused on achieving superior organic growth in profitable revenues.

In 2012, we 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 focus on increased customization of marketing, sales and service support to meet the unique needs of client and advisor segments. The Company expects this focus on segmented support to generate higher net cash flow and associated fee income from segregated funds and mutual funds in 2012. 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. Management has identified a number of areas of focus including development of a Pooled Registered Pension Plan product, a retirement adequacy solution that has received strong support from the Federal and Provincial governments.

GROUP INSURANCE

2011 DEVELOPMENTS

- Sales of $536 million for the twelve months ended December 31, 2011, were at the same level when compared with the same period in 2010. Sales in the fourth quarter were $158 million, up $30 million over the same period in the previous year.
- Premiums and deposits of $7.2 billion grew by 4% for the twelve months ended December 31, 2011, compared with the same period in 2010. Premiums and deposits in the fourth quarter were $1.8 billion, up $69 million over the same period in the previous year.
- Net earnings were $357 million for the twelve months ended December 31, 2011, a decrease of 7% compared with same period in 2010. Net earnings in the fourth quarter were $101 million, up $3 million over the same period in the previous year.
- Provider eClaims service was expanded significantly with the number of physiotherapy, chiropractic, massage and vision providers who are registered for the service more than doubling to over 9,000.
- DrugHub™, an iPhone application providing a virtual medicine cabinet for the management of prescription drugs, was introduced to plan members during the year.
- The Company continued its support in the important area of mental health in Canada through the Great-West Life Centre for Mental Health in the Workplace. In 2011, the Centre launched "*Managing Emotions*", a comprehensive awareness, education and training program offered at no cost to employers, managers, supervisors and employees.

OPERATING RESULTS

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Premiums and deposits	$ **1,812**	$ 1,781	$ 1,743	$ **7,166**	$ 6,902
Sales	**158**	144	128	**536**	536
Fee and other income	**35**	38	35	**147**	144
Net earnings	**101**	96	98	**357**	382

Premiums and deposits

Premiums and deposits for the quarter increased by $69 million to $1.8 billion compared with the same period last year, primarily due to an increase in health and long-term disability premiums.

For the twelve months ended December 31, 2011, premiums and deposits increased by $264 million to $7.2 billion compared to the same period in 2010. Large case premiums and deposits increased by 5%.

Premiums and deposits increased by $31 million compared with the previous quarter. Large case premiums and deposits increased by $23 million while small/mid-size case market increased by $8 million.

Sales

For the fourth quarter, sales increased by $30 million to $158 million compared with the same quarter last year. The increase was primarily due to increased sales in the large case market. The large case market exhibits significant volatility resulting in quarter-over-quarter variances. The increase was also due to increased sales in the small/mid-size market mainly due to an increase in the number of new sales and a higher average case size. These increases were partly offset by a decrease in sales in creditor/direct market.

For the twelve months ended December 31, 2011, sales were comparable to the same period last year.

Sales increased by $14 million to $158 million compared with the previous quarter, due to increased sales in the small/mid-size market mainly due to an increase in the number of new sales and a higher average case size. The increase was also due to higher sales in the large case market. The large case market exhibits significant volatility resulting in quarter-over-quarter variances. These increases were partly offset by a decrease in sales in the creditor/direct marketing 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 for the quarter were at the same level when compared with the fourth quarter of 2010.

For the twelve months ended December 31, 2011, fee and other income increased by $3 million mainly due to an increase in ASO premium equivalents.

Fee and other income for the quarter were $3 million lower than the previous quarter mainly due to a decrease in ASO premium equivalents. The third quarter included a higher than normal amount of ASO premium equivalents following the postal disruption during the second quarter.

Net earnings

Net earnings for the fourth quarter of $101 million increased by $3 million compared with the same period last year.

For the twelve months ended December 31, 2011, net earnings of $357 million decreased by $25 million compared to the same period last year. The decrease was primarily due to lower gains from non-credit related liability basis changes. The decrease was also due to lower investment gains. These reductions were partly offset by higher mortality results, higher morbidity results and higher expense gains.

Net earnings increased by $5 million compared with the previous quarter. The increase was mainly due to higher gains from non-credit related basis changes partly offset by lower mortality and morbidity results and lower investment gains.

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.

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, the Company expects to achieve continued reductions in administration and claims adjudication costs, thereby enhancing its competitive position.

As the costs of employee benefits continue to be the primary concern of plan sponsors, the Company continues to develop an array of enhanced products and services for plan members, plan sponsors, and their advisors. A continued focus in 2012 will be the development of new and innovative approaches to prescription drug management, as well as further enhancements to the Company's extensive suite of eClaims adjudication services. The Company will also focus on expanding its distribution channels and enhancing disability claim capabilities and will continue its efforts to improve process effectiveness, and therefore unit cost and customer service.

CANADA CORPORATE

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

Canada Corporate reported net earnings for the quarter of $22 million, compared with a net earnings of $11 million in the fourth quarter of 2010. The increase in net earnings is primarily due to increased mark-to-market gains on investment properties supporting corporate surplus and lower income taxes resulting from with the decrease in the effective income tax rate from the same period last year.

For the twelve months ended December 31, 2011, Canada Corporate reported net earnings of $74 million compared with net earnings of $7 million for the same period in 2010. The increase in net earnings is primarily due to higher mark-to-market gains on investment properties supporting corporate surplus and lower income taxes associated with the decrease in the effective income tax rate for the twelve months ended December 31, 2011 compared to the same period last year.

Compared to the previous quarter, net earnings decreased $4 million primarily due to lower mark-to-market gains on investment properties supporting corporate surplus.

United States

The United States operating results for Lifeco include the results of Great-West Life & Annuity Company (GWL&A), Putnam Investments, LLC (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.

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 changed currency translation rates on IFRS results. Refer to Cautionary Note regarding non-IFRS Financial Measures at the beginning of this document.

Business Profile

Financial Services

GWL&A 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 17 record-keeping and two investment only state clients as well as the government of Guam. It also 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 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 (both defined benefit and defined contribution). Revenue is derived from the value and composition of assets under management, which includes domestic and international equity and debt portfolios; accordingly, fluctuations in financial markets and in the composition of assets under management 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

- Fourth largest defined contribution record-keeper in the country, providing services for 4,438,513 participant accounts
- Significant market share of state and government deferred compensation plans
- 21% market share of individual life insurance sold through the retail bank channel (as of September 30, 2011)
- 9% market share of business owned life insurance purchased by financial institutions (as of September 30, 2011)

Products and Services

- 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, individual term and single premium life insurance, and individual annuity products
- Business owned life insurance and executive benefits products

Distribution

- 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 financial institutions
- Business-owned life insurance and executive benefits products distributed through specialized consultants

Asset Management

Market Position

- A Global asset manager with assets under management of US$116.7 billion as of December 31, 2011
- International distribution includes sales teams that are focused on major institutional markets in Europe, the Middle East, Asia and Australia and through strategic distribution relationship in Japan

Products and Services

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.)
- 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

Distribution

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 more than 158,000 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

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 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 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Premiums and deposits	**$ 7,216**	$ 7,315	$ 8,043	**$ 33,991**	$ 30,941
Sales	**8,890**	7,386	8,527	**36,834**	38,057
Fee and other income	**304**	296	311	**1,232**	1,246
Net earnings – common shareholders	**79**	75	113	**370**	326
Net earnings – common shareholders (US$)	**78**	76	112	**375**	317
Total assets	**$ 54,581**	$ 55,210	$ 51,549		
Proprietary mutual funds and institutional net assets	**122,072**	121,164	122,781		
Total assets under management	**176,653**	176,374	174,330		
Other assets under administration	**126,247**	120,509	119,766		
Total assets under administration	**$ 302,900**	$ 296,883	$ 294,096		

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Financial services	**$ 83**	$ 87	$ 72	**$ 349**	$ 310
Asset management	**(8)**	(11)	(14)	**15**	(41)
Corporate	**4**	(1)	55	**6**	57
	$ 79	$ 75	$ 113	**$ 370**	$ 326

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
(US$ millions)	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Financial services	**$ 82**	$ 88	$ 71	**$ 353**	$ 301
Asset management	**(8)**	(11)	(13)	**16**	(39)
Corporate	**4**	(1)	54	**6**	55
	$ 78	$ 76	$ 112	**$ 375**	$ 317

* During the period ended March 31, 2011, the Company reclassified its Maxim Series Funds from other assets under administration to assets under management. The comparative figures reflect the presentation adopted in the current period.

BUSINESS UNITS – UNITED STATES

In the fourth quarter, comparing 2011 to 2010, the Canadian dollar weakened against the U.S. dollar. As a result of currency movement, net earnings were positively impacted by less than $1 million compared to the fourth quarter of 2010 and negatively impacted by $15 million compared to the twelve months of 2010.

FINANCIAL SERVICES

2011 Developments

- Sales in the fourth quarter of 2011 were US$3.4 billion, compared to sales of US$2.0 billion in 2010 due to higher 401(k) and public/non-profit retirement services sales. While overall sales were down for the twelve months ended December 31, 2011 compared to 2010, a focus on expanded distribution and diverse product offerings contributed to a 23% increase in corporate 401(k) plan sales and an increase in regional and national business owned life insurance cases to nine in 2011 from three in the previous year.
- Net earnings increased US$11 million to US$82 million in the fourth quarter of 2011. Net earnings for the twelve months ended December 31, 2011 were US$353 million, an increase of US$52 million from the same period in 2010.
- Premiums and deposits were US$1.7 billion or 13% higher than the fourth quarter of 2010. For the twelve months ended December 31, 2011, premiums and deposits decreased US$827 million or 12% compared to the same period in the prior year.
- Fee and other income increased US$7 million to US$118 million in the fourth quarter of 2011. For the twelve months ended December 31, 2011, fee and other income was US$470 million, up 8% compared to 2010.
- Financial Services launched a new hybrid business owned life insurance product in the first quarter. Sales of this product accounted for 26% of total business owned life insurance sales in 2011.
- Financial Services introduced a new collective trust investment product in the second quarter aimed at providing the large corporate and government plan markets with retirement target date asset allocation investment solutions. As of December 31, 2011, Collective Trust assets under management totalled US$90 million.
- Financial Services launched an Individual Retirement Account (IRA) rollover initiative in the second quarter. The initiative's goal is to increase awareness of the IRA rollover product among terminated plan participants. It is expected to result in increased asset retention in the rollover IRA product. This initiative resulted in 2011 sales of US$194 million, an increase of 104% from the prior year.

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Premiums and deposits	**$ 1,761**	$ 1,572	$ 1,540	**$ 5,827**	$ 6,903
Sales	**3,435**	1,643	2,024	**8,670**	14,019
Fee and other income	**121**	114	113	**466**	449
Net earnings	**83**	87	72	**349**	310
Premiums and deposits (US$)	**$ 1,726**	$ 1,604	$ 1,525	**$ 5,874**	$ 6,701
Sales (US$)	**3,368**	1,676	2,005	**8,702**	13,553
Fee and other income (US$)	**118**	116	111	**470**	435
Net earnings (US$)	**82**	88	71	**353**	301

Premiums and deposits

Premiums and deposits for the fourth quarter increased by US$201 million compared to the fourth quarter of 2010 primarily due to an increase of US$259 million in Retirement Services offset by lower premiums and deposits in Individual Markets.

For the twelve months ended December 31, 2011, premiums and deposits decreased by US$827 million compared to the same period in 2010, primarily due to the impact of an US$800 million large plan transfer in 2010 from retail mutual funds assets under administration investment options to the Company's segregated funds (AUM) investment options and three business-owned life insurance plans sold in 2010 for US$425 million partially offset by higher premiums and deposits in 401(k).

Premiums and deposits increased by US$122 million compared with the previous quarter primarily due to US$127 million increase in Retirement Services premiums and deposits in the fourth quarter.

Sales

For the fourth quarter, sales increased by US$1.4 billion compared to the fourth quarter of 2010 primarily due to an increase of US$925 million in the 401(k) market and US$468 million in the public/non-profit market.

For the twelve months ended December 31, 2011, sales decreased by US$4.9 billion compared to the same period last year primarily due to 2010 plan sales including two large plan sales in the public/non-profit market for US$5.6 billion offset by increased sales of US$648 million in the 401(k) market.

For the three months ended December 31, 2011, sales increased by US$1.7 billion compared with the previous quarter primarily due to US$1.1 billion in the 401(k) market and US$480 million in the public/non-profit market.

Financial Services – Retirement Services customer account values

(US$ millions)	Change for the three months ended December 31 2011	2010	Total at December 31 2011	2010	% Change
General account – fixed options					
Public/Non-profit	**$ 5**	$ (4)	**$ 3,624**	$ 3,556	2%
401(k)	**198**	244	**4,916**	4,310	14%
	$ 203	$ 240	**$ 8,540**	$ 7,866	9%
Segregated funds – variable options					
Public/Non-profit	**$ 647**	$ 163	**$ 9,488**	$ 8,809	8%
401(k)	**428**	563	**6,798**	7,048	(4)%
	$ 1,075	$ 726	**$ 16,286**	$ 15,857	3%
Proprietary Mutual Funds					
Public/Non-profit	**$ 34**	$ 73	**$ 372**	$ 741	(50)%
401(k)	**330**	361	**2,395**	1,888	27%
Institutional	**4**	4	**54**	48	13%
	$ 368	$ 438	**$ 2,821**	$ 2,677	5%
Unaffiliated retail investment options & administrative services only					
Public/Non-profit	**$ 3,795**	$ 3,817	**$ 58,799**	$ 58,369	1%
401(k)	**1,685**	1,294	**22,559**	22,337	1%
Institutional (FASCore)	**2,387**	1,896	**42,012**	39,863	5%
	$ 7,867	$ 7,007	**$ 123,370**	$ 120,569	2%

The increase in the 401(k) general account is primarily due to plan sales. The increase in segregated funds is related to public/non-profit plan sales and an increase in the equity markets offset by higher 401(k) transfers to other fund options. The increase in the Institutional market's unaffiliated retail investment options is attributable to plan sales partially offset by the loss of one institutional partner.

Fee and other income

Fee and other income for the quarter increased by US$7 million compared to the fourth quarter of 2010 primarily due to increased average asset levels, driven by higher average equity market levels and sales.

For the twelve months ended December 31, 2011, fee and other income increased by US$35 million compared to the same period last year, primarily due to increased average asset levels, driven by higher average equity market levels and sales.

For the three months ended December 31, 2011, fee and other income increased by US$2 million compared with the previous quarter primarily due to increased average asset levels as a result of higher in quarter equity market levels and sales.

Net earnings

Net earnings for the quarter increased by US$11 million compared to the fourth quarter of 2010, primarily due to favourable mortality experience.

For the twelve months ended December 31, 2011, net earnings increased by US$52 million compared to the same period in 2010 primarily due to improved mortality experience, higher gains on surplus assets, and higher fees, partially offset by higher operating expenses due to growth in average accounts and strategic initiatives.

Net earnings decreased by US$6 million compared with the previous quarter primarily due to higher income tax rates in the fourth quarter.

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.

Financial services delivered strong results in 2011 considering the challenging economic environment in the U.S. We continued our focus to provide our customers with excellent customer service. Significant progress was made during 2011 on GWL&A's five year strategic plan which is expected to accelerate the growth of the Financial Services business in 2012. Key initiatives to increase sales, improve customer service, increase assets under management, and launch new products have laid the groundwork for continued growth.

A new online sales tool will aggregate information about 401(k) prospects, advisors, plans and sales metrics to increase opportunities and sales force productivity. A recently launched customer relationship management system consolidates legacy databases to improve service to retirement plan sponsors and partners and enhance client retention.

Financial Services introduced new Corporate and Retirement Services websites in 2011. The website enhancements support the Company's strategy to provide enhanced tools and resources for clients, grow its business organically, and improve the client experience while enhancing operational efficiency.

An agreement with Bank of America Merrill Lynch created a high potential distribution channel for corporate 401(k) plan sales through their retirement plan platform, Advisor Alliance. The Company was selected to be the only provider on the Advisor Alliance platform to offer both a group annuity contract product designed specifically for small and micro clients, and a net asset value product targeted to the small and mid-size market. In addition, two new distribution partners and expanded selling agreements with two others will extend the reach of life insurance and wealth transfer products to financial institution customers. A corporate branding initiative is under way to increase recognition and create stronger equity for GWL&A in all of its markets.

An Individual Retirement Account (IRA) rollover initiative is anticipated to increase asset retention through rollovers by terminated group plan participants. With US$1.9 billion in assets at December 31, 2011, the Maxim Lifetime Asset Allocation Series (MLAAS) mutual funds became the 16th largest target date fund offering in the U.S. MLAAS also ranked 10th in net flows among target date fund families for the year ended 2011. The MLAAS mutual funds, which provide retirement target date options, and the Maxim SecureFoundation Portfolios, which offer guaranteed lifetime income within defined contribution plans, are expected to continue contributing to growth of AUM.

While strategic expenditures are fundamental to the organic growth of the business, operational expense management is also equally important to ensure strong financial results. This will be achieved through disciplined expense and project management controls to ensure we are choosing the right strategies and implementing them effectively.

New products also position the Company to capitalize on institutional and individual investment trends. A collective trust product introduced in 2011 provides target date asset allocation investment solutions to large corporate and government plan markets. The hybrid business owned life insurance product, which has captured an increasing share of sales in the community and regional bank markets, is expected to continue its momentum. Retail retirement income products for individuals also are planned for 2012.

A continued focus on diverse product offerings and expanded distribution channels provides a solid base for future growth.

ASSET MANAGEMENT

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. Revenue is derived from the value and composition of assets under management, which includes U.S. and international equity and debt portfolios; accordingly, fluctuations in financial markets and in the composition of assets under management affect revenues and results of operations.

2011 Developments

- Premiums and deposits increased by US$5.2 billion for the twelve months ended December 31, 2011 compared to the same period last year.
- Putnam's total net asset flows improved by US$4.3 billion for the twelve months ended December 31, 2011 compared to the same period last year, resulting in positive net sales of $183 million.
- For the twelve months ended December 31, 2011, the impact of higher average equity markets on fee income positively impacted net earnings by US$25 million after-tax compared to the same period a year ago.
- Putnam was recognized for superior performance throughout the year. In March 2011, Putnam received Lipper Fund Awards for six of its funds, across multiple asset classes, in recognition of their consistently strong risk adjusted performance relative to peers for periods of three years or more. In April 2011, Putnam was named "Retirement Leader of the Year" at the 18th Annual Mutual Fund Industry Awards.
- Putnam became the first and only firm in the industry to earn a 2011 "Total Client Experience" award from DALBAR. This is a newly launched and highly-demanding measure of service excellence, which involves a broader assessment of a firm's performance in assuring client security, processing accurately and delivering precise information to customers. In addition, Putnam has received a DALBAR Service Award for providing outstanding service to shareholders of its mutual funds for the 22nd consecutive year.
- Putnam continued to launch new products and tools throughout the year to meet the diversifying needs of their investors. The Putnam Retirement Income Fund Lifestyle suite of funds addresses changing lifestyle financial needs throughout retirement. The Short Duration Income Fund aims to have a higher return than a typical money market fund while maintaining a greater focus on capital preservation with the goal of maintaining liquidity. The Lifetime Income Score℠ was introduced, giving a plan participant a view of the success of their plan. Putnam also launched FundVisualizer™, an analytical tool enabling in depth evaluations of over 10,000 investment choices in real time, using more than 60 different selection criteria.
- Putnam launched the Dynamic Risk Allocation Fund, designed to actively balance the sources of portfolio risk across multiple asset classes, with flexibility to respond dynamically to changing economic conditions and market valuations, in pursuit of consistent levels of total return. The Fund will make use of a risk parity approach that Putnam has utilized extensively for institutional clients. At the same time, Putnam renamed its three existing asset allocation funds to form the Putnam Dynamic Asset Allocation suite of Funds.

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Premiums and deposits	**$ 5,455**	$ 5,743	$ 6,503	**$ 28,164**	$ 24,038
Fee and other income					
Investment management fees	**128**	130	134	**530**	533
Performance fees	**1**	–	5	**22**	21
Service fees	**38**	36	38	**149**	166
Underwriting & distribution fees	**15**	15	20	**61**	73
Fee and other income	**182**	181	197	**762**	793
Net earnings (loss)	**(8)**	(11)	(14)	**15**	(41)
Premiums and deposits (US$)	**$ 5,348**	$ 5,860	$ 6,438	**$ 28,514**	$ 23,348
Fee and other income (US$)					
Investment management fees (US$)	**126**	133	133	**536**	518
Performance fees (US$)	**1**	–	5	**22**	21
Service fees (US$)	**37**	37	39	**150**	162
Underwriting & distribution fees (US$)	**14**	15	18	**62**	68
Fee and other income (US$)	**178**	185	195	**770**	769
Net earnings (loss) (US$)	**(8)**	(11)	(13)	**16**	(39)

Premiums and deposits

For the three and twelve months ended December 31, 2011, premiums and deposits decreased by US$1.1 billion and increased by US$5.2 billion respectively, compared to the same periods in 2010. The quarterly decrease is a result of the impact of market volatility. The year-to-date improvement is primarily due to strong institutional sales in the first half of 2011.

Premiums and deposits decreased by US$512 million or 8.7%, compared with the previous quarter largely due to the timing of defined benefit plan mandates.

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 quarter decreased by US$17 million compared to the same period in 2010 primarily due to a decrease in investment management and distribution fee revenue from lower average AUM, a decrease in performance fees, and lower service fee revenue from a modest drop in retail accounts.

For the twelve months ended December 31, 2011, fee and other income was essentially level on a U.S. dollar basis as higher investment management fee revenue from higher average AUM and higher performance fees were offset by service fee revenue decreases from lower accounts and lower distribution revenue. For the twelve months ended December 31, 2010 fee and other income includes revenue from Putnam's former 529 college savings plans of US$15 million.

Fee and other income decreased by US$7 million compared with the previous quarter, primarily due to a decrease in investment management fee revenue from lower average AUM.

Net earnings

Net earnings for the fourth quarter increased by US$5 million compared with the same period last year primarily due to the quarter-over-quarter change in fair value adjustments related to share-based compensation of $20 million and lower compensation expense; partially offset by a decrease in fee revenue and the partial release of legal provisions of US$16 million in the fourth quarter of 2010.

For the twelve months ended December 31, 2011, net earnings increased by US$55 million compared to the same period last year due to an increase in the partial release of a legal provision of US$30 million, the year-over-year change in fair value adjustments related to share-based compensation of $23 million, and lower compensation expense; partially offset by an increase in unrealized losses from seed capital portfolios.

Net earnings increased by US$3 million compared with the previous quarter due to an increase in unrealized gains and dividend income from seed capital portfolios and lower compensation expense; partially offset by lower fair value adjustments on share based compensation and a decrease in fee revenue.

Asset under Management

Assets under management

	For the three months ended			For the twelve months ended	
(US $ millions)	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Beginning assets	**$ 113,871**	$ 129,132	$ 119,715	**$ 121,213**	$ 114,946
Sales (includes dividends reinvested)	**5,348**	5,860	6,438	**28,514**	23,348
Redemptions	**(7,160)**	(7,319)	(9,982)	**(28,331)**	(27,423)
Net asset flows	**(1,812)**	(1,459)	(3,544)	**183**	(4,075)
Impact of market/performance	**4,593**	(13,802)	5,042	**(4,744)**	10,342
Ending assets	**$ 116,652**	$ 113,871	$ 121,213	**$ 116,652**	$ 121,213
Average assets under management	**$ 117,077**	$ 122,776	$ 119,367	**$ 123,005**	$ 116,214

Average AUM for the three months ended December 31, 2011 was US$117 billion, comprising mutual funds of US$60 billion and institutional accounts of US$57 billion. Average AUM decreased by US$2 billion compared to the three months ended December 31, 2010 primarily due to unfavorable market conditions during the third quarter outweighing the positive performance during the remainder of the year.

Average AUM for the twelve months ended December 31, 2011 increased by US$7 billion compared to the twelve months ended December 31, 2010 due to the positive market impact and net inflows in the first half of 2011.

Compared to the third quarter, average AUM decreased by US$6 billion primarily due to net outflows during the quarter and the continuing impact of the unfavorable market conditions during the third quarter of 2011.

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 2012, Putnam will continue to drive growth and market share through new sales and asset retention in all markets that Putnam services including Global Institutional, Domestic Retail, Defined Contribution and Registered Investment Advisor, 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 investment performance, while retaining its experienced investment professionals.

Innovation will continue to be a powerful differentiator for Putnam in 2012, as the firm recently launched and continues to introduce new product offerings, service features and operational functions, while strengthening its corporate and business/product brand image with a wide range of key constituents. Further, Putnam intends to invest in technology in order to scale its business model more cost effectively.

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

UNITED STATES CORPORATE

United States Corporate net earnings for the quarter were US$4 million, compared to US$54 million in the fourth quarter of 2010, primarily due to a favourable US$35 million adjustment of prior year overstatements of tax liabilities in 2010 and US$17 million of credits related to the true-up of the 2009 tax provision to the tax return and settlement of prior year IRS audits in 2010.

For the twelve months ended December 31, 2011, United States Corporate net earnings were US$6 million compared to US$55 million in 2010 for the same reasons as the fourth quarter.

Net earnings increased US$5 million compared with the previous quarter primarily due to positive income tax true-ups and credits in the fourth quarter of 2011.

EUROPE

The Europe segment comprises two distinct business units: Insurance & Annuities and Reinsurance. Insurance & Annuities consists of operations in the U.K., Isle of Man, Ireland and Germany which offer protection and wealth management products including payout annuity products, conducted through Canada Life and its subsidiaries. Reinsurance operates primarily in the U.S., Barbados and Ireland, and is conducted 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 changed 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 international operations of Canada Life and its subsidiaries are located primarily in Europe, and offer a focused portfolio of protection and wealth management products and related services in the U.K., Isle of Man, Ireland and Germany.

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 individual insurance, savings and pension products. These products are distributed through independent brokers and a direct sales force.

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

Canada Life 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, enhancement of distribution capabilities and intermediary relationships.

REINSURANCE

The Company's reinsurance business comprises the operations in the U.S., Barbados and Ireland.

In the U.S., the Company's reinsurance business is carried on through Canada Life and London Life. In Barbados, the Company's reinsurance business is carried on primarily through both London Life and Canada Life branches and subsidiaries of London Life. In Ireland, the Company's 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 group companies. 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

U.K. and Isle of Man
- Among the top 20 of life insurance companies operating in the U.K.
- The market leader of the group life market, with 30% share
- Second in the group income protection market with 20% share
- Among the top offshore life companies selling into the U.K. market, with 22% market share
- Among the top insurers in payout annuities, with 6% market share
- Among the top ten in the onshore unit-linked single premium bond market

Ireland
- 5% of Irish life assurance and pension market
- Among the top seven insurers by new business market share

Germany
- One of the top two insurers in the independent intermediary unit-linked market
- Among the top six in the overall unit-linked market

PRODUCTS AND SERVICES

Wealth Management
- Payout annuities, including enhanced annuities
- Pensions, including guaranteed deferred annuity
- Savings
- Variable annuity GMWB products

Group Insurance
- Life insurance
- Income protection (disability)
- Critical illness

Individual Insurance
- Life insurance
- Disability
- Critical illness

DISTRIBUTION

U.K. and Isle of Man
- IFAs
- Private banks
- Employee benefit consultants

Ireland
- Independent brokers
- Direct sales force

Germany
- Independent brokers
- Multi-tied agents

Reinsurance

Market Position
- Among the top ten life reinsurers in the U.S. by assumed business
- Niche positions in property and casualty and annuity business

Products and Services
Life
- Yearly renewable term
- Co-insurance
- Modified co-insurance
- Capital Relief Solutions

Property & Casualty
- Catastrophe retrocession

Annuity
- Payout annuity
- Fixed annuity

Distribution
- Independent reinsurance brokers
- Direct placements

Competitive Conditions

United Kingdom and Isle of Man

In the United Kingdom, the Company holds strong positions in several niche markets with particular strength in the payout annuity, offshore savings, group life and income protection markets. The Company has strong market positions in each of group risk (more than 20% of market share), payout annuities (6% market share and a leading share of the IFAs market) and wealth management where, both onshore and offshore, Canada Life is a top ten unit-linked single premium bond provider in the U.K. The Company remains competitive in the payout annuity market and continues to sell the majority of its products through IFAs. In order to compete with products of other companies carried by these IFAs, the Company must maintain competitive product design and pricing, distribution compensation and service levels.

Ireland

Due to poor economic conditions and reductions in pension tax relief, the market continued to see a decline in new business during 2011, leading to aggressive pricing for available business with larger companies maintaining a significant share. In addition, due to limited new money coming into the market, portions of new business were simply brokers moving cases from one company to another.

Canada Life is the seventh largest life insurance operation in Ireland as measured by new business market share. The Company operates in all segments of the market with a focus on higher margin products. The Company continues to demonstrate its focus on the development of innovative products and distribution capability with Canada Life becoming the first company to launch a guaranteed variable annuity product in Ireland in October 2011.

Germany

Canada Life has established a leading position among providers of unit-linked products to the German independent intermediary market. This market has become more 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 market through continuous product, technology and service improvements.

The German economy continued its recovery in 2011, although at a slower pace in the second half of the year. However, within the life and pensions market consumers were still reluctant to commit to investing in long-term pension products and 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 solutions eased in 2011 from recent years because of the recovery of the financial markets and increased competition from the re-entry of banks into that market. Lower life insurance sales since the onset of the financial crisis and higher retention by clients have led to reduced volumes of traditional life reinsurance. 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 the regulations are finalized. Demand for longevity reinsurance remains strong in the U.K. however there are now more reinsurers participating in this market.

Property insurers/reinsurers saw increased losses from natural catastrophe events in 2011, most notably severe earthquakes in New Zealand and the earthquake and tsunami in Japan. Although the 2011 Atlantic hurricane season was tied for the third most active on record, no major storms hit the U.S.

Selected consolidated financial information – Europe

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Premiums and deposits	**$ 2,068**	$ 2,485	$ 2,566	**$ 8,916**	$ 9,336
Sales	**881**	1,279	1,308	**4,144**	4,487
Fee and other income	**170**	139	139	**583**	550
Net earnings – common shareholders	**181**	148	119	**562**	532
Total assets	**$ 69,649**	$ 69,790	$ 65,875		
Other assets under administration	**102**	102	107		
Total assets under administration	**$ 69,751**	$ 69,892	$ 65,982		

Net earnings – common shareholders

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Insurance & Annuities	$ **117**	$ 106	$ 79	$ **445**	$ 403
Reinsurance	**73**	45	49	**130**	137
Europe Corporate	**(9)**	(3)	(9)	**(13)**	(8)
	$ **181**	$ 148	$ 119	$ **562**	$ 532

2011 Developments

- Net earnings for the fourth quarter of 2011 were $181 million, an increase of 52% compared to the fourth quarter of 2010 and $562 million for the full year, an increase of 6%.
- Fee and other income for the fourth quarter was $170 million and $583 million for the twelve months ended December 31, 2011, up 22% and 6% compared to the same periods of 2010.
- In the AssCompact survey of German independent brokers, Canada Life was named the top cross-border insurer for the second year and the best provider of individual disability products.
- Canada Life won the prestigious five star service award for the third year in a row from IFAs in the U.K. within the investment product category. In addition, the Isle of Man operations won two awards at the 2011 International Adviser International Life Awards: "Best Overall Product Range" for the second year in a row and "Best Protection Product" for the Flexible Life Plan for the third consecutive year.
- The Investments Life and Pensions Moneyfacts 2011 awards in the U.K., named Canada Life "Most Competitive Annuity Provider" for the sixth consecutive year and "Best Group Protection Provider" for the third consecutive year. Canada Life also won "Best Tax and Estate Planning Solutions Provider" for the first time.
- The 2011 Cover Excellence Awards named Canada Life the "Group Life" provider of the year and "Employee Benefits" provider of the year.
- In Ireland, Canada Life became the first company to launch a guaranteed variable annuity product, and also launched an Income Opportunities Fund, managed by Setanta Asset Management, the group's asset manager in Ireland.

BUSINESS UNITS – EUROPE

Comparing 2011 to 2010, the Canadian dollar weakened against the U.S. dollar and the British pound for the fourth quarter. As a result of currency movement, net earnings were positively impacted by $1 million compared to the fourth quarter of 2010 and negatively impacted by $4 million compared to the full year 2010.

INSURANCE & ANNUITIES

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Premiums and deposits	$ **1,181**	$ 1,565	$ 1,691	$ **5,407**	$ 5,846
Sales	**881**	1,279	1,308	**4,144**	4,487
Fee and other income	**157**	129	129	**540**	511
Net earnings	**117**	106	79	**445**	403

Premiums and deposits

Premiums and deposits for the fourth quarter decreased by 30% compared with the same quarter last year, or 31% in constant currency. The decrease was primarily due to lower sales of payout annuities in the U.K., savings products in the Isle of Man and pension products in Ireland. This was partly offset by increased sales of savings products in the U.K.

For the twelve months ended December 31, 2011, premiums and deposits decreased by 8% compared to the same period in 2010, primarily due to lower sales of payout annuities in the U.K. and pension products in Ireland. These were partly offset by higher sales of savings products in the Isle of Man.

Premiums and deposits decreased by 25% compared with the previous quarter mainly due to lower sales of savings products in the Isle of Man and payout annuities in the U.K. These decreases were partially offset by increased sales of savings products in the U.K. and pension products in Ireland and Germany.

Sales

Compared to the same quarter last year, sales decreased by 33%. The decrease was due to a 60% decline in payout annuities in the U.K. due to intense competition and from a 45% decline in single premium savings products in the Isle of Man reflecting fluctuations in the number of large cases which vary from quarter to quarter. In addition, pension products in Ireland declined by 40% due to the difficult economic conditions. This decrease was partially offset by a 33% increase in sales of single premium savings products in the U.K. and a 36% increase in sales of pension products in Germany.

For the twelve months ended December 31, 2011, sales decreased by 8% compared to the same period last year, largely due to a 34% decline in payout annuities and a 15% decrease in pension products in Ireland. This decrease was partially offset by a 10% increase in single premium savings products in the Isle of Man.

Sales decreased by 31% from the previous quarter primarily due to a 66% decline in single premium savings products in the Isle of Man and a 28% decline in payout annuities in the U.K. Partly offsetting these decreases was a 178% increase in single premium savings products in the U.K. and a 34% increase in pension products in Ireland and Germany.

Fee and other income

Fee and other income increased by $28 million compared to the same quarter last year. On a constant currency basis fees increased by 21% due mainly to higher fees in Germany, the timing of fee income in Ireland as well as from higher fee income in the U.K. resulting from higher surrender charges. The pattern of sales and surrenders on certain shorter term single premium investment products can cause the surrender fees to fluctuate from quarter to quarter.

For the twelve months ended December 31, 2011, fee and other income increased by $29 million compared to the same period last year due mainly to higher fees in Germany as well as favourable sales mix and higher volumes in the U.K. These increases are partly offset by a reduction in surrender charges in the U.K.

Fee and other income for the quarter increased by $28 million compared to the previous quarter due mainly to higher fees in Germany and the timing of fee income in Ireland partly offset by lower surrender charges in the U.K.

Net earnings

Net earnings for the fourth quarter of 2011 increased by $38 million compared to the same quarter last year. The increase reflects $85 million lower impairment charges, $7 million higher surrender fees in the U.K. and $4 million net impact of basis changes. These increases were partly offset by declines of $28 million in investment trading gains, $15 million in mortality gains in the U.K. and $9 million in new business gains.

For the twelve months ended December 31, 2011, net earnings increased by $42 million due to a $65 million lower impairment charges, $36 million higher investment trading gains, and $35 million net impact of basis changes. These increases were partly offset by $52 million lower mortality and morbidity gains in the U.K. group insurance and payout annuity businesses, $10 million lower new business gains and $31 million attributed to a lower effective income tax rate.

Net earnings increased by $11 million compared to the previous quarter. The increase was primarily due to $28 million higher impact of basis changes and $18 million higher mortality results in the U.K. group insurance operations. These increases were partly offset by lower investment experience of $11 million, $6 million lower surrender fees in the wealth management business and an $18 million benefit in the third quarter of reduced tax liabilities and a lower corporate income tax rate in the U.K.

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.

In 2012, the Company will prepare for the implementation of the new capital requirements for European entities (Solvency II) through the completion of activities and deliverables as part of the transition plan.

United Kingdom/Isle of Man – The outlook for payout annuities in 2012 remains in line with 2011; as markets stabilize it will provide investment opportunities to support the Company's annuity new business strategy. Within the single premium investment market, the Company will continue to focus on IFAs as its key distribution strategy. Canada Life has strengthened its market share in single premium investment products and we will continue to develop and invest in our presence in both onshore and offshore segments. Once investor confidence returns, Canada Life will be well positioned to take full advantage of economic recovery.

The outlook for the group risk operation remains cautious as the Company expects market conditions to remain weak. The group risk operation, while well positioned, will continue to be limited by the difficult environment in which it operates.

IFAs will remain the key distribution focus and the Company will concentrate our efforts in strengthening our relationships with IFAs in 2012. In 2012, there will be new regulatory requirements surrounding the retail distribution environment and preparations are in place to meet these regulatory changes.

Overall, the progress made in the last few years establishing strong niche market positions in our chosen sectors, using an efficient cost base and prudent financial management, gives the Company a sound base on which to grow. The Company is well positioned for the difficulties in the markets in the short-term and the challenges of continuing to grow a profitable business going forward.

Ireland – The market continued to see a significant decline in new business during 2011. The decline in the market is the result of the continued impact of poor economic conditions following the end of the property and credit bubble which undermined investor confidence and eroded a significant amount of personal wealth. Although the Irish Government has made significant progress in its fiscal correction program, and the economy benefits from a strong export sector, conditions in the domestic life and pensions market are expected to remain challenging in 2012.

Given this challenging economic environment the Company is cautious on the outlook for 2012. Customers are likely to remain reluctant to invest given the current environment and the existing volume of business may fall further. As a result, the Company will continue to focus on managing unit cost pressures.

Germany – The outlook for the German operation is positive and the Company expects continued sales growth in 2012. 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 current European debt crisis 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 this unit-linked market through continued investments in product development, distribution technology and service improvements.

The most recent analysis of the market indicates that independent intermediaries are expected to maintain their share of distribution. The Company will continue to focus mainly on this distribution channel.

REINSURANCE

Operating Results

	For the three months ended			For the twelve months ended	
	Dec. 31 2011	Sept. 30 2011	Dec. 31 2010	Dec. 31 2011	Dec. 31 2010
Premiums and deposits	**$ 887**	$ 920	$ 875	**$ 3,509**	$ 3,490
Fee and other income	**13**	10	10	**43**	39
Net earnings	**73**	45	49	**130**	137

Premiums and deposits

Premiums and deposits for the fourth quarter increased by $12 million compared with last year primarily due to higher volumes in the life businesses and favourable currency movement.

For the twelve months ended December 31, 2011, premiums and deposits increased by $19 million compared to the same period last year as higher volumes in the life business were partly offset by currency movement.

Premiums and deposits decreased by $33 million compared with the previous quarter due primarily to lower volumes in the life businesses partially offset by currency movement.

Fee and other income

Fee and other income for the fourth quarter increased by $3 million compared with the previous quarter and last year due to higher volumes. Compared to the twelve months ended in 2010, fee and other income increased by $4 million, also due to volume growth. The reinsurance business earns fee income primarily in the life businesses with the fees driven by volume of coverage provided.

Net earnings

Net earnings for the fourth quarter of 2011 increased by $24 million compared to the same period last year. Favourable new business strain of $3 million, investment experience of $19 million and renewal profits of $14 million were offset by net liability strengthening of $8 million and unfavourable end of term lapse experience of $4 million. Net earnings in the quarter were favourably impacted by the adoption of the revised Actuarial Standards of Practice relating to future mortality improvements of $193 million almost completely offset by a $141 million decrease resulting from updated lapse assumptions in traditional life reinsurance and other experience and interest related changes of $38 million.

For the twelve months ended December 31, 2011, net earnings decreased by $7 million compared to the same period last year. The decrease reflects the impact of catastrophe provisions of $84 million relating to the earthquake events in Japan and New Zealand in 2011 compared to the provision of $18 million for the Chile earthquake in 2010. Also contributing to the decrease was net reserve strengthening of $12 million. These decreases were offset by favourable mortality experience of $14 million, new business strain of $10 million, renewal profits of $11 million, investment experience of $17 million and the positive resolution of prior period tax matters and reductions in statutory income tax rates and current provisions of $14 million.

Net earnings for the fourth quarter of 2011 increased by $28 million compared to the previous quarter. The increase was due to higher renewal profits of $16 million, investment experience of $15 million, basis and other reserve changes of $21 million and mortality experience gains of $4 million. These increases were partially offset by unfavourble end of term lapse experience of $13 million and the benefit of resolution of prior period tax matters and current provisions of $17 million in the previous quarter.

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 2012 and further development of the lower collateral solutions for reinsurance could encourage more co-insurance of term business. Underlying insurance sales will continue to stay at their current level if the U.S. economy does not demonstrate a significant recovery.

In Europe, Solvency II is expected to be a key driver of the business in 2012 and beyond. The Reinsurance operation is preparing to help European clients and other affiliated companies meet the potential capital challenges and business opportunities coming out of these regulatory changes.

As a result of the industry-wide catastrophe losses in New Zealand and Japan in 2011, we expect favourable pricing in the worldwide property retrocession market in 2012. It is likely that retrocession sellers will become increasingly reluctant to provide worldwide cover to clients with the growing shift towards named territories. Hedge fund capacity, collateralized covers and catastrophe bond issuance continue to increase and demand is under downward pressure due to increasing client retention. The primary focus for 2012 will be managing risk limits, utilizing the most recent U.S. modeling updates from Risk Management Solutions (RMS) and geographic exposures without a 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.

Europe Corporate net loss for the three and twelve months ended December 31, 2011 were $9 million and $13 million respectively, compared to net losses of $9 million and $8 million for the same period in 2010. The increased loss for the year was primarily due to the net benefit of non-recurring items reported in 2010.

Compared to the previous quarter, net earnings declined by $6 million primarily due to basis changes in the legacy international operations.

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, 2011, Lifeco Corporate reported net earnings of $120 million compared to a net loss of $4 million in the fourth quarter of 2010.

During the fourth quarter of 2011 the Company re-evaluated and reduced the litigation provision established in the third quarter of 2010 which positively impacted common shareholders net earnings by $223 million after-tax. Additionally, the Company established provision for $99 million after-tax in respect of the settlement of litigation relating to the Company's investment in a USA based private equity firm. The net impact of these two unrelated matters was $124 million after-tax or $0.129 per common share. The twelve month 2010 results include the impact of an incremental litigation provision of $204 million attributable to common shareholders.

For the twelve months ended December 31, 2011, Lifeco Corporate reported net earnings of $104 million compared to a net loss of $218 million for the same period in 2010. The increase in net earnings of $322 million was primarily due to the provisions noted above.

Net earnings increased by $121 million compared to the previous quarter primarily for the same reason as the in-quarter comparison.

OTHER INFORMATION

SELECTED ANNUAL INFORMATION

	Years ended December 31		
(in $ millions, except per share amounts)	2011	2010	2009[1]
Total revenue	**$ 29,898**	$ 30,103	$ 30,541
Net earnings – common shareholders			
Operating earnings	**$ 1,898**	$ 1,819	$ 1,627
Net earnings	**2,022**	1,615	1,627
Net earnings per common share			
Operating	**$ 2.000**	$ 1.920	$ 1.722
Basic	**2.129**	1.704	1.722
Diluted	**2.112**	1.695	1.719
Total assets			
Total assets	**$ 238,768**	$ 229,421	$ 128,369
Segregated funds net assets [1]	**–**	–	87,495
Proprietary mutual funds and institutional net assets	**125,390**	126,053	123,504
	364,158	355,474	339,368
Other assets under administration	**137,807**	131,528	119,207
Total assets under administration	**501,965**	487,002	458,575
Total liabilities	**$ 222,664**	$ 214,605	$ 112,252
Dividends paid per share			
Series D First Preferred [5]	**$ –**	$ 0.29375	$ 1.1750
Series E First Preferred [2]	**–**	–	1.2000
Series F First Preferred	**1.475**	1.475	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 [3]	**1.50000**	1.50000	1.63459
Series L First Preferred [4]	**1.41250**	1.41250	0.34829
Series M First Preferred [6]	**1.450**	1.19377	–
Series N First Preferred [7]	**1.004375**	–	–
Common	**1.230**	1.230	1.230

(1) The 2009 figures are presented in accordance with the former CGAAP. Segregated funds were not included in the financial statements under former CGAAP, and have not been included in the 2009 comparative general fund figures.

(2) The Series E First Preferred Shares were redeemed on December 31, 2009.

(3) The Series J First Preferred Shares were issued in November of 2008. The first dividend payment was made on March 31, 2009 in the amount of $0.50959 per share which included accrued dividends for 2008. Regular quarterly dividend payments are $0.375 per share.

(4) The Series L First Preferred Shares were issued on October 2, 2009. The dividend on December 31, 2009 was a partial, initial dividend payment. Regular quarterly dividend payments are $0.353125 per share.

(5) The Series D First Preferred Shares were redeemed on March 31, 2010.

(6) The Series M First Preferred Shares were issued on March 4, 2010. The first dividend payment was made on June 30, 2010 in the amount of $0.46877 per share. Regular quarterly dividends were $0.36250 per share.

(7) 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.

QUARTERLY FINANCIAL INFORMATION

Quarterly financial information

(in $ millions, except per share amounts)	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Total revenue	**$ 8,003**	$ 8,506	$ 7,134	$ 6,255	$ 5,247	$ 9,116	$ 7,413	$ 8,327
Common Shareholders								
Net earnings								
Total	**624**	457	526	415	465	267	455	428
Basic – per share	**0.657**	0.481	0.553	0.438	0.491	0.281	0.480	0.452
Diluted – per share	**0.651**	0.478	0.550	0.436	0.488	0.281	0.477	0.449
Operating earnings (1)								
Total	**500**	457	526	415	465	471	455	428
Basic – per share	**0.528**	0.481	0.553	0.438	0.491	0.497	0.480	0.452
Diluted – per share	**0.523**	0.478	0.550	0.436	0.488	0.494	0.477	0.449

(1) 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 "Non-IFRS Financial Measures" section of this report.

Lifeco's net earnings attributable to common shareholders were $624 million for the fourth quarter of 2011 compared to $465 million reported a year ago. On a per share basis, this represents $0.657 per common share ($0.651 diluted) for the fourth quarter of 2011 compared to $0.491 per common share ($0.488 diluted) a year ago.

Total revenue for the fourth quarter of 2011 was $8,003 million and comprises premium income of $4,334 million, regular net investment income of $1,365 million, change in fair value through profit or loss of $1,564 million, and fee and other income of $740 million. Total revenue for the fourth quarter of 2010 was $5,247 million, including premium income of $4,610 million, regular net investment income of $1,464 million, a negative change in fair value through profit or loss on investment assets of $1,540 million and fee and other income of $713 million.

DISCLOSURE CONTROLS AND PROCEDURES

Based on their evaluations as of December 31, 2011, 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 at the reasonable assurance level in ensuring 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.

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 adequate internal control over financial reporting for Lifeco. All internal control systems have inherent limitations and may become inadequate 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 by The Committee of Sponsoring Organizations of the Treadway Commission.

As at December 31, 2011, management assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting that have been identified by management.

There have been no changes in the Company's internal control over financial reporting during the period ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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, 2011 the Company held $39 million ($47 million in 2010) of debentures issued by IGM.

During 2011, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $202 million from IGM ($226 million in 2010).

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 2011 or 2010. There were no provisions for uncollectible amounts from related parties during 2011 and 2010.

TRANSLATION OF FOREIGN CURRENCY

Through its operating subsidiaries, Lifeco conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the United States 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 financial period. All income and expense items are translated at an average rate for the period. The rates employed are:

Translation of foreign currency

	2011				2010			
Period Ended	**Dec. 31**	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
United States dollar								
Balance sheet	**$1.02**	$1.04	$0.96	$0.97	$0.99	$1.03	$1.06	$1.02
Income and expenses	**$1.02**	$0.98	$0.97	$0.99	$1.01	$1.04	$1.03	$1.04
British pound								
Balance sheet	**$1.58**	$1.62	$1.55	$1.56	$1.55	$1.62	$1.59	$1.54
Income and expenses	**$1.61**	$1.58	$1.58	$1.58	$1.60	$1.61	$1.53	$1.62
Euro								
Balance sheet	**$1.32**	$1.40	$1.40	$1.38	$1.33	$1.40	$1.30	$1.37
Income and expenses	**$1.38**	$1.38	$1.39	$1.35	$1.38	$1.34	$1.31	$1.44

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.

Segregated funds were not included in the financial statements under former CGAAP. As a result of the adoption of IFRS, segregated funds are now included at fair value on the consolidated balance sheet as a single line item within assets and liabilities.

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.

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with International Financial Reporting Standards (IFRS). The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The consolidated financial statements necessarily include amounts that are based on management's best estimates. These estimates are based on careful judgments and have been properly reflected in the consolidated financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows in accordance with IFRS.

In carrying out its responsibilities, management maintains appropriate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

The consolidated financial statements were approved by the Board of Directors, which has oversight responsibilities with respect to financial reporting. The Board of Directors carries out this responsibility principally through the Audit Committee, which comprises independent directors. The Audit Committee is charged with, among other things, the responsibility to:

- Review the interim and annual consolidated financial statements and report thereon to the Board of Directors.
- Review internal control procedures.
- Review the independence of the external auditors and the terms of their engagement and recommend the appointment and compensation of the external auditors to the Board of Directors.
- Review other audit, accounting and financial reporting matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to review their respective audit plans and to review their audit findings. The Committee is readily accessible to the external and internal auditors.

The Board of Directors of each of The Great-West Life Assurance Company and Great-West Life & Annuity Insurance Company, appoints an Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary:

- Ensures that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations and directives.
- Provides an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the policy liabilities are important elements of the work required to form this opinion.

Deloitte & Touche LLP Chartered Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Auditors' Report to the Shareholders is presented following the consolidated financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows in accordance with IFRS.

D. Allen Loney	**William W. Lovatt**
President and	Executive Vice-President and
Chief Executive Officer	Chief Financial Officer

February 9, 2012

CONSOLIDATED STATEMENTS OF EARNINGS

(in Canadian $ millions except per share amounts)

For the years ended December 31	**2011**	2010
Income		
Premium income		
Gross premiums written	$ **20,013**	$ 20,404
Ceded premiums	**(2,720)**	(2,656)
Total net premiums	**17,293**	17,748
Net investment income (note 5)		
Regular net investment income	**5,538**	5,709
Changes in fair value through profit or loss	**4,164**	3,825
Total net investment income	**9,702**	9,534
Fee and other income	**2,903**	2,821
	29,898	30,103
Benefits and expenses		
Policyholder benefits		
Insurance and investment contracts		
Gross	**16,591**	17,550
Ceded	**(1,217)**	(2,208)
	15,374	15,342
Policyholder dividends and experience refunds	**1,424**	1,466
Change in insurance and investment contract liabilities	**6,245**	6,417
Total paid or credited to policyholders	**23,043**	23,225
Commissions	**1,548**	1,477
Operating and administrative expenses (note 28)	**1,950**	2,801
Premium taxes	**264**	256
Financing charges (note 15)	**289**	288
Amortization of finite life intangible assets	**100**	92
Earnings before income taxes	**2,704**	1,964
Income taxes (note 27)	**465**	256
Net earnings before non-controlling interests	**2,239**	1,708
Attributable to non-controlling interests (note 19)	**121**	7
Net earnings	**2,118**	1,701
Perpetual preferred share dividends	**96**	86
Net earnings – common shareholders	$ **2,022**	$ 1,615
Earnings per common share (note 24)		
Basic	$ **2.129**	$ 1.704
Diluted	$ **2.112**	$ 1.695

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in Canadian $ millions)

For the years ended December 31	2011	2010
Net earnings	**$ 2,118**	$ 1,701
Other comprehensive income (loss)		
Unrealized foreign exchange gains (losses) on translation of foreign operations	**206**	(572)
Income tax (expense) benefit	**1**	–
Unrealized gains (losses) on available for sale assets	**235**	158
Income tax (expense) benefit	**(51)**	(44)
Realized (gains) losses on available for sale assets	**(121)**	(80)
Income tax expense (benefit)	**31**	17
Unrealized gains (losses) on cash flow hedges	**(24)**	77
Income tax (expense) benefit	**10**	(27)
Realized (gains) losses on cash flow hedges	**2**	2
Income tax expense (benefit)	**(1)**	(1)
Non-controlling interests	**(84)**	(14)
Income tax (expense) benefit	**22**	6
	226	(478)
Comprehensive income	**$ 2,344**	$ 1,223

CONSOLIDATED BALANCE SHEETS

(in Canadian $ millions)

	December 31 2011	December 31 2010	January 1 2010
Assets			
Cash and cash equivalents (note 4)	**$ 2,056**	$ 1,840	$ 3,427
Bonds (note 5)	**78,073**	72,203	66,147
Mortgage loans (note 5)	**17,432**	16,115	16,684
Stocks (note 5)	**6,704**	6,700	6,442
Investment properties (note 5)	**3,201**	2,957	2,613
Loans to policyholders	**7,162**	6,827	6,957
	114,628	106,642	102,270
Funds held by ceding insurers (note 6)	**9,923**	9,856	10,984
Goodwill (note 10)	**5,401**	5,397	5,406
Intangible assets (note 10)	**3,154**	3,108	3,238
Derivative financial instruments (note 29)	**968**	984	717
Owner occupied properties (note 11)	**491**	439	429
Fixed assets (note 11)	**137**	121	138
Reinsurance assets (note 14)	**2,061**	2,533	2,800
Other assets (note 12)	**4,283**	4,361	4,461
Deferred tax assets (note 27)	**1,140**	1,153	1,206
Segregated funds for the risk of unitholders (note 13)	**96,582**	94,827	87,495
Total assets	**$ 238,768**	$ 229,421	$ 219,144
Liabilities			
Insurance contract liabilities (note 14)	**$ 114,730**	$ 107,405	$ 105,028
Investment contract liabilities (note 14)	**782**	791	841
Debentures and other debt instruments (note 16)	**4,313**	4,288	4,106
Funds held under reinsurance contracts	**169**	149	331
Derivative financial instruments (note 29)	**316**	165	251
Other liabilities (note 17)	**4,287**	4,637	4,479
Deferred tax liabilities (note 27)	**929**	766	634
Repurchase agreements	**23**	1,042	532
Capital trust securities (note 18)	**533**	535	540
Preferred shares (note 20)	**–**	–	199
Investment and insurance contracts on account of unitholders (note 13)	**96,582**	94,827	87,495
Total liabilities	**222,664**	214,605	204,436
Equity			
Non-controlling interests (note 19)			
Participating account surplus in subsidiaries	**2,227**	2,045	2,045
Preferred shares issued by subsidiaries	**–**	–	157
Perpetual preferred shares issued by subsidiaries	**–**	–	147
Non-controlling interests in capital stock	**3**	2	2
Shareholders' equity			
Share capital (note 20)			
Perpetual preferred shares	**1,894**	1,897	1,497
Common shares	**5,828**	5,802	5,751
Accumulated surplus	**6,327**	5,474	5,038
Accumulated other comprehensive income (loss)	**(233)**	(459)	19
Contributed surplus	**58**	55	52
Total equity	**16,104**	14,816	14,708
Total liabilities and equity	**$ 238,768**	$ 229,421	$ 219,144

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in Canadian $ millions)

	December 31, 2011					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	$ 7,699	$ 55	$ 5,474	$ (459)	$ 2,047	$ 14,816
Net earnings	–	–	2,118	–	121	2,239
Other comprehensive income	–	–	–	226	62	288
	7,699	55	7,592	(233)	2,230	17,343
Dividends to shareholders						
Perpetual preferred	–	–	(96)	–	–	(96)
Common shareholders	–	–	(1,169)	–	–	(1,169)
Shares issued under stock option plan (note 20)	26	–	–	–	–	26
Surrender of preferred shares	(3)	–	–	–	–	(3)
Share based payments	–	3	–	–	–	3
Balance, end of year	$ 7,722	$ 58	$ 6,327	$ (233)	$ 2,230	$ 16,104

	December 31, 2010					
	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	$ 7,248	$ 52	$ 5,038	$ 19	$ 2,351	$ 14,708
Net earnings	–	–	1,701	–	7	1,708
Other comprehensive income (loss)	–	–	–	(478)	8	(470)
	7,248	52	6,739	(459)	2,366	15,946
Share issue costs (note 20)	–	–	(9)	–	–	(9)
Dividends to shareholders						
Perpetual preferred	–	–	(86)	–	–	(86)
Common shareholders	–	–	(1,165)	–	–	(1,165)
Dividends to non-controlling interests	–	–	–	–	(15)	(15)
Redemption of preferred shares in subsidiaries	–	–	(5)	–	(304)	(309)
Shares issued under stock option plan (note 20)	51	–	–	–	–	51
Issuance of new preferred shares	400	–	–	–	–	400
Share based payments	–	3	–	–	–	3
Balance, end of year	$ 7,699	$ 55	$ 5,474	$ (459)	$ 2,047	$ 14,816

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian $ millions)

For the years ended December 31	2011	2010
Operations		
Earnings before income taxes	$ 2,704	$ 1,964
Income taxes paid, net of refunds received	303	64
Adjustments:		
Change in insurance and investment contract liabilities	6,029	6,654
Change in funds held by ceding insurers	464	649
Change in funds held under reinsurance contracts	25	(121)
Change in deferred acquisition costs	(15)	(49)
Change in reinsurance assets	415	160
Changes in fair value through profit or loss	(4,164)	(3,825)
Other	(917)	301
Cash flows from operations	4,844	5,797
Financing Activities		
Issue of common shares	26	51
Issue of preferred shares	–	400
Redemption of preferred shares	–	(200)
Redemption of preferred shares in subsidiaries	–	(307)
Decrease in line of credit of subsidiary	(13)	(46)
Issue of debentures	–	500
Increase in (repayment of) debentures and other debt instruments	7	(208)
Share issue costs	–	(9)
Dividends paid on common shares	(1,169)	(1,165)
Dividends paid on preferred shares	(96)	(86)
	(1,245)	(1,070)
Investment Activities		
Bond sales and maturities	19,590	19,092
Mortgage loan repayments	1,756	2,102
Stock sales	2,334	2,366
Investment property sales	73	16
Change in loans to policyholders	(198)	(135)
Change in repurchase agreements	(1,053)	559
Investment in bonds	(20,081)	(25,687)
Investment in mortgage loans	(2,991)	(1,927)
Investment in stocks	(2,626)	(2,109)
Investment in investment properties	(211)	(376)
	(3,407)	(6,099)
Effect of changes in exchange rates on cash and cash equivalents	24	(215)
Increase (decrease) in cash and cash equivalents	216	(1,587)
Cash and cash equivalents, beginning of year	1,840	3,427
Cash and cash equivalents, end of year	$ 2,056	$ 1,840
Supplementary cash flow information		
Interest income received	$ 4,649	$ 4,652
Interest paid	$ 290	$ 287
Dividend income received	$ 191	$ 184

(in Canadian $ millions except per share amounts)

1. Corporate Information

Great-West Lifeco Inc. (Lifeco or the Company) is a publicly listed company (TSX: GWO), incorporated and domiciled in Canada. The registered address of the Company is 100 Osborne Street North, Winnipeg, Manitoba, Canada, R3C 1V3. Lifeco is a member of the Power Financial Corporation group of companies and its direct parent is Power Financial Corporation.

Lifeco is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses, primarily in Canada, the United States, Europe and Asia through its major operating subsidiaries The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A) and Putnam Investments, LLC (Putnam LLC).

The consolidated financial statements of the Company for the year ended December 31, 2011 were authorized for issue by the Board of Directors on February 9, 2012.

2. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The financial statements are prepared using IFRS accounting policies which became Canadian generally accepted accounting principles (CGAAP) for publicly accountable enterprises and were adopted by the Company for fiscal years beginning on January 1, 2011. These accounting policies are based on the IFRS standards and IFRS Interpretations Committee (IFRIC) interpretations that the Company applied at December 31, 2011.

Prior to the adoption of IFRS the Company's financial statements were prepared in accordance with the previous CGAAP, which differs in some areas from IFRS. See note 3 for an explanation of how the adoption of IFRS has affected the reported financial position, financial performance and accounting policies of the Company. This note includes reconciliations of equity and comprehensive income under IFRS for the comparative periods and of equity at the date of transition reported under previous CGAAP for those periods and at the date of transition to IFRS.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company as at December 31, 2011. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, income and expenses and profits and losses, including dividends resulting from intra-group transactions, are eliminated on consolidation.

Critical Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates 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 revenues and expenses during the reporting period. Areas where estimates and judgments are exercised by management include the valuation and classification of insurance and investment contract liabilities, determination of the fair value and classification for certain financial assets and liabilities, goodwill and indefinite life intangible assets, income taxes, contingencies and pension plans and other post-employment benefits. In addition, the financial statements required management's judgments in accounting for deferred income reserves (DIR) and deferred acquisition costs (DAC), the valuation of deferred income tax assets, the level of componentization of property, plant and equipment, determination of relationships with subsidiaries and special purpose entities and the identification of cash generating units and operating segments. Actual results will differ from those estimates. Areas where significant estimates and judgments have been applied by management are described further in the significant accounting policies below.

The annual 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 policies are as follows:

(a) Portfolio Investments

Portfolio investments include bonds, mortgage loans, stocks, investment properties and loans to policyholders. Portfolio investments are classified as fair value through profit or loss, available for sale, held to maturity, loans and receivables or as non-financial instruments based on management's intention relating to the purpose and nature of the instrument or characteristics of the investment. The Company currently has not classified any investments as held to maturity.

Investments in bonds and stocks normally actively traded on a public market are either designated or classified as fair value through profit or loss or classified as available for sale on a trade date basis, based on management's intention. Fair value through profit or loss investments are recognized at fair value on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Consolidated Statements of Earnings. Available for sale investments are recognized at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in other comprehensive income (OCI). Realized gains and losses are reclassified from OCI and recorded in the Consolidated Statements of Earnings when the available for sale investment is sold. Interest income earned on both fair value through profit or loss and available for sale bonds is recorded as investment income earned in the Consolidated Statements of Earnings.

Investments in equity instruments where a market value cannot be measured reliably are classified as available for sale and carried at cost. Investments in stocks which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting. Investments in stocks include the Company's investment in an affiliated company, IGM Financial Inc. (IGM), a member of the Power Financial Corporation group of companies, over which it exerts significant influence but does not control. The investment is accounted for using the equity method of accounting.

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

Investment properties are initially measured at cost and subsequently carried at fair value on the Consolidated Balance Sheets. All changes in fair value are recorded as investment income earned in the Consolidated Statements of Earnings. Fair values for investment properties are determined using independent qualified appraisal services. Property that is leased that would otherwise be classified as investment property if owned by the Company is also included with investment properties.

Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded within the market pricing methods the Company relies upon.

The following is a description of the methodologies used to value instruments carried at fair value:

Bonds — Fair Value Through Profit or Loss and Available for Sale

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

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

Stocks – Fair Value Through Profit or Loss and Available for Sale

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. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure stocks at fair value in its fair value through profit or loss and available for sale portfolios.

Mortgages and Bonds – Loans and Receivables

Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

Investment Properties

Market values for investment properties are determined using independent qualified 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.

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 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 made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available for sale loans, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income (AOCI) 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 these assets will be recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

(b) Transaction Costs

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

(c) Cash and Cash Equivalents

Cash and cash equivalents comprises cash, current operating accounts, overnight bank and term deposits with original maturities of three months or less, and fixed income securities with an original term to maturity of three months or less. Net payments in transit and overdraft bank balances are included in other liabilities. The carrying value of cash and cash equivalents approximates their fair value.

(d) Trading Account Assets

Trading account assets consist of investments in Putnam LLC sponsored funds, which are carried at fair value based on the net asset value of these funds. Investments in these assets are included in other assets on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Consolidated Statements of Earnings.

(e) Financial Liabilities

Financial liabilities, other than insurance and investment contract liabilities and certain preferred shares, are classified as either capital trust securities or other liabilities. Debentures and other debt instruments, capital trust securities and other liabilities are initially recorded on the Consolidated Balance Sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in the Consolidated Statements of Earnings.

(f) Derivative Financial Instruments

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

The Company includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent in note 29 as prescribed by The Office of the Superintendent of Financial Institutions of Canada (OSFI).

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Balance Sheets. The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the Consolidated Statements of Earnings. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

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

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

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

Derivatives not designated as hedges for accounting purposes

For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

Fair value hedges

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

The Company currently uses interest rate futures designated as fair value hedges.

Cash flow hedges

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

The Company currently uses interest rate swaps and cross-currency swaps designated as cash flow hedges.

Net investment hedges

Foreign exchange forward contracts are used to hedge the net investment in the Company's foreign operations. Changes in the fair value of these hedges are recorded in OCI. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

The Company currently has no derivatives designated as net investment hedges.

(g) Embedded Derivatives

Embedded derivatives are treated as separate contracts and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself recorded at fair value through the Consolidated Statements of Earnings. Embedded derivatives that meet the definition of an insurance contract are accounted for and measured as an insurance contract.

(h) Foreign Currency Translation

The Company operates with multiple functional currencies. The Company's consolidated financial statements are presented in Canadian dollars as this presentation is most meaningful to financial statement users. For those subsidiaries with different functional currencies, exchange rate differences arising from the translation of monetary items that form part of the net investment in the foreign operation are taken to unrealized foreign exchange gains (losses) on translation of foreign operations in AOCI.

For the purpose of presenting consolidated financial statements, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Company's net investment in its foreign operations are presented separately as a component of OCI. Unrealized gains and losses will be recognized proportionately in net investment income on the Consolidated Statements of Earnings when there has been a disposal of the investment in the foreign operations. Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income and are not material to the financial statements of the Company.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

(i) Loans to Policyholders

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

(j) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

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

(k) Reinsurance Contracts

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

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

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

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

(l) Goodwill and Intangible Assets

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries of the Company. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company and software acquired or internally developed by the Company. Finite life intangible assets include the value of software, customer contracts, distribution channels, and technology. These finite life intangible assets are amortized over their estimated useful lives, generally not exceeding 10 years, 20 years and 30 years respectively.

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

Impairment Testing

Goodwill and 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 (see note 3 (n)).

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 calculated using the present value of estimated future cash flows expected to be generated.

(m) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured. When premiums are recognized, insurance contract liabilities are computed, with the result that benefits and expenses are matched with such revenue.

Fee and other income is recognized when earned, collectible and the amount can be reasonably estimated. Fee and other income primarily includes fees earned from the management of segregated fund assets, proprietary mutual funds assets, fees earned on administrative services only (ASO) Group health contracts and fees earned from management services.

(n) Fixed Assets and Owner Occupied Properties

Fixed assets and property held for own use is carried at cost less accumulated depreciation and impairments. Depreciation is charged so as to write-off the cost of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Owner occupied properties	15 – 20 years
Furniture and fixtures	5 – 10 years
Other fixed assets	3 – 10 years

(o) Other Assets

Included in other assets are DAC relating to investment contracts. These are recognized if the costs are incremental and incurred due to the contract being issued.

(p) Segregated Funds for the Risk of Unit Holders

Segregated funds assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by unit holders and are presented separately in the Consolidated Balance Sheets at fair value. Investment income and changes in market value of the segregated fund assets are offset by a corresponding change in the segregated fund liabilities.

(q) Insurance and Investment Contract Liabilities

Contract Classification

The Company's products are classified at contract inception, for accounting purposes, as insurance, service or investment contracts depending on the existence of significant insurance risk. Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. When significant insurance risk exists, the contract is accounted for as an insurance contract in accordance with IFRS 4, *Insurance Contracts* (IFRS 4). Refer to note 14 for discussion of insurance risk.

In the absence of significant insurance risk, the contract is classified as an investment or service contract. Investment contracts with discretionary participating features (DPF) are accounted for in accordance with IFRS 4 and investment contracts without DPF are accounted for in accordance with IAS 39, *Financial Instruments: Recognition & Measurement*. The Company has not classified any contracts as investment contracts with DPF. Service contracts mainly relate to ASO contracts and are accounted for under IAS 18, *Revenue Recognition*.

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

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to note 7 for discussion of risk management.

Measurement

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

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

(r) Deferred Income Reserves

Included in other liabilities are DIR relating to investment contract liabilities. These are amortized on a straight-line basis to recognize the initial policy fees over the policy term, not to exceed 20 years, to release revenue as it is earned over the policy term.

(s) Income Taxes

On December 20, 2010, the IASB issued "Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)" concerning the determination of deferred tax on investment property measured at fair market value. IAS 12 was updated to include a rebuttable presumption that a deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. The amendments are mandatory for annual periods beginning on or after January 1, 2012, but early adoption is permitted. The Company has elected to adopt the amendment effective January 1, 2011.

2. Basis of Presentation and Summary of Accounting Policies (cont'd)

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or income in profit or loss except to the extent that it relates to items that are recognized outside profit or loss (whether in OCI or directly in equity), in which case the income tax is also recognized outside profit or loss.

Current Income Tax

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

Deferred Income Tax

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is more likely than not that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer more likely than not that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more likely than not that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the group controls the timing of the reversal of the temporary difference and it is more likely than not that the temporary differences will not reverse in the foreseeable future.

Under the IFRS liability method, a provision for tax uncertainties which meet the more likely than not threshold for recognition are measured. Measurement of the provision is based on the probability weighted average approach.

(t) Policyholder Benefits

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

(u) Repurchase Agreements

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

(v) Pension Plans and Other Post-Employment Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors. The cost of defined pension benefits is charged to net earnings using the projected unit credit method prorated on services (see note 23).

For the Company's defined benefit plans, actuarial gains and losses are amortized into the Consolidated Statements of Earnings using the straight-line method over the expected average remaining working lives of employees covered by the plan, to the extent that the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed corridor limits. The corridor is defined as ten percent of the greater of the present value of the defined benefit obligation or the fair value of plan assets. The amortization charge is re-assessed at the beginning of each year.

The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. The cost of post-employment health, dental and life insurance benefits is charged to net earnings using the projected unit credit method prorated on services (see note 23).

(w) Share Capital and Surplus

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

Contributed surplus represents the vesting of share options less share options exercised.

Accumulated other comprehensive income represents the total of the unrealized foreign exchange gains (losses) on translation of foreign operations, the gains (losses) on available for sale assets, and the unrealized gains (losses) on cash flow hedges.

Non-controlling interests represent the proportion of equity that is attributable to minority shareholders.

Participating account surplus in subsidiaries represents the proportion of equity attributable to the participating account.

(x) Share Based Payments

The Company follows the fair value based method of accounting for the valuation of compensation expense for shares and share options granted to employees under its stock option plans (see note 22). Compensation expense is recognized as an increase to compensation expense in the Consolidated Statements of Earnings and an increase to contributed surplus over the vesting period of the granted options. When options are exercised, the proceeds received, along with the amount in contributed surplus, are transferred to share capital.

The Company follows the liability method of accounting for share-based awards issued by Putnam LLC and its subsidiary PanAgora Asset Management, Inc. (PanAgora). Compensation expense is recognized as an increase to operating expenses in the Consolidated Statements of Earnings and a liability is recognized on the Consolidated Balance Sheets over the vesting period of the share-based awards. The liability is remeasured at fair value at each reporting period and is settled in cash when the shares are purchased from the employees.

(y) Earnings Per Common Share

Earnings per common share is calculated using net earnings after preferred share dividends and the weighted average number of common shares outstanding. The treasury stock method is used for calculating diluted earnings per common share (see note 24).

(z) Leases

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

Where the Company is the lessor under an operating lease for its investment property, the assets subject to the lease arrangement are presented within the Consolidated Balance Sheets. Income from these leases is recognized in the Consolidated Statements of Earnings on a straight-line basis over the lease term.

(aa) Operating Segments

Operating segments have been identified based on internal reports that are regularly reviewed by the Company's Chief Executive Officer to allocate resources and assess performance of segments. The Company's reportable business segments are categorized by geographic region and include Canada, the United States and Europe. Both GWL&A and Putnum LLC are reported in the United States segment. Reinsurance operations and operations in all countries other than Canada and the United States are reported as part of the Europe segment. The Lifeco Corporate segment represents activities and transactions that are not directly attributable to the measurement of the operating segments of the Company.

3. Reconciliations of IFRS Equity and Comprehensive Income

Application of IFRS – 1

The Company's annual consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB and as adopted by the Accounting Standards Board of Canada for financial reporting periods beginning on or after January 1, 2011. References made to IAS throughout refer to the application of IAS and related interpretations of IFRIC and interpretations of the Standing Interpretations Committee (SIC).

These are the first annual consolidated financial statements prepared in accordance with IFRS, with the 2010 comparatives restated accordingly. Prior to the adoption of IFRS, the consolidated financial statements were prepared in accordance with the previous CGAAP.

The effects of the transition to IFRS as of January 1, 2010 on the financial position, financial performance and cash flows for the periods presented are as follows:

3. Reconciliations of IFRS Equity and Comprehensive Income (cont'd)

Reconciliations of Previous CGAAP to IFRS

At transition to IFRS the Company applied IFRS 1, *First-time Adoption of International Financial Reporting Standards* (IFRS 1) which requires the Company to reconcile accumulated surplus and comprehensive income for prior periods presented. The adoption of IFRS has not changed the Company's cash flows, however it has resulted in certain changes to the Company's reported financial position and results of operations. IFRS has also resulted in a number of presentation changes to the Company's financial statements. In order for users to understand the effects of adopting IFRS, reconciliations of the Company's financial statements from the previous CGAAP to IFRS along with narrative explanations have been provided below.

IFRS does not allow the use of hindsight to recreate or revise estimates and consequently the estimates previously made by the Company under the previous CGAAP were not revised when converting to IFRS except where necessary to reflect any difference in accounting policies.

Reconciliation of consolidated equity from the previous CGAAP to IFRS

		Date of transition to IFRS January 1, 2010	Comparative period reported under CGAAP December 31, 2010
Total surplus under the previous CGAAP		$ 13,003	$ 13,420
2010 IFRS equity adjustments			
Impact on participating account surplus in subsidiaries		–	41
Impact on shareholders' equity		–	(646)
Net impact of IFRS on equity		–	(605)
Beginning surplus restated under IFRS		13,003	12,815
IFRS 1 optional elections / exemptions			
Employee benefits cumulative unamortized actuarial gains and losses	a	(302)	–
Cumulative translation losses of foreign operations – common shareholders	b	(1,590)	–
Redesignation of financial assets	c	(127)	–
Fair value as deemed cost of owner occupied properties	d	28	–
IFRS adjustments			
Measurement of investment properties and owner occupied properties	f	119	–
Derecognition of deferred net realized gains	g	110	(12)
Unamortized vested past service costs and other employment benefits	h	123	(9)
Uncertain income tax provisions	i	(240)	(26)
DAC and DIR on investment contracts	j	(508)	18
Other adjustments	k	9	(21)
Income tax effect of the above adjustments	l	90	(2)
Total IFRS adjustment to shareholders' account		(2,288)	(52)
Adjustment related to participating account surplus in subsidiaries	m	(41)	9
Total IFRS adjustment		(2,329)	(43)
		$ 10,674	$ 12,772
Accumulated other comprehensive income			
Cumulative translation losses of foreign operations – common shareholders	b	1,590	56
Redesignation of financial assets	c	127	(29)
Tax impact on redesignation of financial assets	c	(34)	9
Total adjustment to accumulated other comprehensive income		1,683	36
Total adjustment to shareholders' equity at transition to IFRS		(646)	(7)
Total share capital and shareholders' equity under IFRS		12,357	12,808
Reclassification of non-controlling interests for IFRS presentation		2,310	2,017
Cumulative translation losses of foreign operations – participating account surplus	b	(84)	–
Cumulative translation losses of foreign operations – participating account surplus	b	84	–
Total IFRS adjustment to participating account surplus in subsidiaries	m	41	(9)
Reclassification of non-controlling interests		2,351	2,008
Total equity		$ 14,708	$ 14,816

Reconciliation of consolidated earnings and comprehensive income from the previous CGAAP to IFRS

		Comparative period reported under CGAAP for the year ended December 31, 2010
Total comprehensive income under the previous CGAAP		$ 1,230
Adjustments for:		
Measurement adjustment for owner occupied and investment properties	d,f	–
Derecognition of deferred net realized gains	g	(12)
		(12)
Unamortized vested past service costs and other employment benefits	h	(9)
Uncertain tax provisions	i	(26)
Change in recognition of DAC on investment contracts		71
Change in recognition of DIR on investment contracts		(53)
	j	18
Other adjustments	k	(21)
Total impact on operating earnings before tax and OCI		(50)
Income tax effect related to the above	l	(2)
Total after-tax adjustments to net earnings		(52)
Total participating account surplus adjustment	m	9
		(43)
Other comprehensive income		
Cumulative translation gains of foreign operations	b	56
Redesignation of financial assets	c	(29)
Tax impact on redesignation of financial assets	c	9
Total after tax adjustments to comprehensive income		36
Total IFRS comprehensive income		$ 1,223

3. Reconciliations of IFRS Equity and Comprehensive Income (cont'd)

Reconciliation of the Consolidated Balance Sheet from the previous CGAAP to IFRS

(in Canadian $ millions) December 31	Comparative period reported under CGAAP December 31, 2009	Conversion adjustments		Presentation and reclassification adjustments		Date of transition to IFRS January 1, 2010
Assets						
Cash and cash equivalents	$ 3,427	$ –		$ –		$ 3,427
Bonds	66,147	–		–		66,147
Mortgage loans	16,684	–		–		16,684
Stocks	6,442	–		–		6,442
Investment properties	3,099	(85)	f	(401)	q	2,613
Loans to policyholders	6,957	–		–		6,957
Funds held by ceding insurers	10,839	–		145	r	10,984
Goodwill	5,406	–		–		5,406
Intangible assets	3,238	–		–		3,238
Derivative financial instruments	717	–		–		717
Owner occupied properties	–	28	d	401	q	429
Fixed assets	138	–		–		138
Reinsurance assets	–	–		2,800	r	2,800
Other assets	4,078	(64)	h	447	s	4,461
Deferred tax assets	1,197	9	p	–		1,206
Segregated funds for the risk of unitholders	–	–		87,495	u	87,495
Total assets	$ 128,369	$ (112)		$ 90,887		$ 219,144
Liabilities						
Insurance contract liabilities	$ 102,651	$ (29)	f,g,j	$ 2,406	r	$ 105,028
Investment contract liabilities	–	–		841	r,s	841
Debentures and other debt instruments	4,142	(36)	k	–		4,106
Funds held under reinsurance contracts	186	–		145	r	331
Derivative financial instruments	251	–		–		251
Other liabilities	3,658	821	a,h,i,j,k,l	–		4,479
Deferred tax liabilities	699	(65)	p	–		634
Repurchase agreements	532	–		–		532
Deferred net realized gains	133	(133)	g	–		–
Capital trust securities	540	–		–		540
Preferred shares	203	(4)	k	–		199
Non-controlling interests	2,371	(61)	v	(2,310)	v	–
Investment and insurance contracts on account of unitholders	–	–		87,495	u	87,495
Total liabilities	115,366	493		88,577		204,436
Equity						
Non-controlling interests						
Participating account surplus in subsidiaries	–	41	m	2,004	v	2,045
Preferred shares issued by subsidiaries	–	–		157	v	157
Perpetual preferred shares issued by subsidiaries	–	–		147	v	147
Non-controlling interests in capital stock and surplus	–	–		2	v	2
Shareholders' equity						
Share capital						
Perpetual preferred shares	1,497	–		–		1,497
Common shares	5,751	–		–		5,751
Accumulated surplus	7,367	(2,329)		–		5,038
Accumulated other comprehensive income (loss)	(1,664)	1,683	b,c	–		19
Contributed surplus	52	–		–		52
Total equity	13,003	(605)*		2,310		14,708
Total liabilities and equity	$ 128,369	$ (112)		$ 90,887		$ 219,144

* Total impact on equity of $(605) consists of $41 impact on participating account and impact on non-participating of $(646).

Statements of Cash Flows

Under IFRS, the statements of cash flows will continue to be presented under the indirect method with limited presentation differences of operating earnings being presented before tax and cash flows related to tax expense presented separately within operating cash flows. The cash flows reported under the previous CGAAP for operating, financing, and investing activities have not been impacted by the adoption of IFRS requirements.

IFRS 1 First-time Adoption of IFRS Optional Exemptions

The Company has applied IFRS 1 in preparing the annual consolidated financial statements which requires retrospective application of IFRS except for certain optional exemptions and mandatory exceptions provided in the Standard. The optional exemptions adopted by the Company and the mandatory exceptions that apply to the Company are described within this transitional note.

(a) Employee Benefits Cumulative Unamortized Actuarial Gains and Losses

The Company has elected to apply the exemption available to recognize all cumulative unamortized actuarial gains and losses of the Company's defined benefit plans in equity upon transition to IFRS. This adjustment, referred to as the 'fresh start adjustment', decreased total equity by $302 before tax (decrease of $275 to shareholders' equity and $27 to participating account surplus). Subsequent to transition, the Company will continue to use the corridor approach available under the present IAS 19, *Employee Benefits* standard for deferring recognition of actuarial gains and losses that reside within the corridor.

(b) Cumulative Translation Losses of Foreign Operations

The Company has elected to reset its cumulative translation adjustment (CTA) account for all foreign operations to zero as of January 1, 2010. Future gains or losses on disposal of any foreign operation will therefore exclude translation differences that arose before January 1, 2010. The balance of the cumulative loss to be reclassified from AOCI to accumulated non-participating account surplus at January 1, 2010 is approximately $1,590 and the balance reclassified within participating account surplus is $84 at January 1, 2010. As a result of the foreign exchange revaluation of the transitional IFRS adjustments the total impact to CTA was an increase of $56 for the year ended December 31, 2010.

(c) Redesignation of Financial Assets

The Company has elected to redesignate certain non-participating available for sale financial assets to the fair value through profit or loss classification and certain financial assets classified as held for trading under the previous CGAAP to available for sale. The redesignation will have no overall impact on the Company's opening surplus at transition but will result in a reclassification within surplus of $127 before tax ($93 after-tax) between accumulated surplus and AOCI (a decrease of $129 related to shareholders' equity and an increase of $2 related to participating account surplus). For the year ended December 31, 2010, the redesignation decreased net earnings by $20, net of tax.

The financial assets carried at fair value in the most recent previous CGAAP consolidated financial statements and at transition to IFRS is as follows:

	Fair value January 1, 2010	Unrealized gains reclassified to AOCI January 1, 2010
Financial assets redesignated to fair value through profit or loss	$ 373	$ 38
Financial assets redesignated to available for sale	$ 360	$ 89

d) Fair Value as Deemed Cost for Owner Occupied Properties

The Company has elected to measure owner occupied properties at fair value as its deemed cost at the January 1, 2010 transition date which has resulted in an increase to opening surplus of $28 before tax (increases of $26 to shareholders' equity and $2 to participating account surplus). Subsequent to this date, owner occupied properties will be carried at amortized cost.

(e) Business Combinations

The Company has applied the IFRS 1 business combinations exemption and has not restated business combinations that took place prior to the January 1, 2010 transition date which has resulted in no impact on opening figures. The Company will apply IFRS 3, *Business Combinations* prospectively for business combinations occurring on or after January 1, 2010.

Changes in Accounting Policies Mandatory at Conversion to IFRS
Measurement and Recognition Differences

(f) Measurement of Investment Properties and Owner Occupied Properties

Under the previous CGAAP, real estate is carried at cost net of write-downs and allowance for loss, plus a moving average market value adjustment. Under IFRS, real estate held for investment purposes is classified as investment property and is measured at fair value. This measurement change has increased opening surplus at January 1, 2010 by $119 before tax (increase of $114 in shareholders' equity and $5 in participating account surplus) with a net effect of zero, offset by the change in accounting for owner occupied properties, for the year ended December 31, 2010.

3. Reconciliations of IFRS Equity and Comprehensive Income (cont'd)

(g) Derecognition of Deferred Net Realized Gains

Under the previous CGAAP, net realized gains and losses associated with the sale of real estate were deferred and included in deferred net realized gains on the Consolidated Balance Sheets. These deferred net realized gains and losses are amortized to income at a rate of 3% per quarter on a declining balance basis. Under IFRS, gains and losses associated with the sale of investment properties are immediately recognized in income and consequently the balance of the unrecognized net deferred realized gains were recognized in equity at transition. This recognition change has increased opening surplus at January 1, 2010 by $110 before tax (increase of $47 in shareholders' equity and $63 in participating account surplus), and decreased net earnings by $12 for the year ended December 31, 2010.

(h) Unamortized Vested Past Service Costs and Other Employment Benefits

Previous CGAAP and IFRS differ in their treatment of other employee benefits including the timing of recognition of unamortized vested past service costs and certain service awards. The change in recognition for these vested past service costs and other employee benefits under IFRS has increased opening surplus at January 1, 2010 by $123 before tax (increased by $105 in shareholders' equity and $18 in participating account surplus) and has decreased net earnings by $9 for the year ended December 31, 2010.

(i) Uncertain Income Tax Provisions

The difference in the recognition and measurement of uncertain income tax provisions between the previous CGAAP and IFRS has decreased opening surplus at January 1, 2010 by $240 (decreased by $231 in shareholders' equity and $9 in participating account surplus) and decreased net earnings by $26 for the year ended December 31, 2010.

(j) Deferred Acquisition Costs and Deferred Income Reserves on Investment Contracts

Under the previous CGAAP, DAC relating to policyholder liabilities were deferred in policy liabilities and amortized into consolidated net earnings over the anticipated period of benefit. Under IFRS, DAC on policyholder liabilities reclassified as investment contract liabilities are no longer deferred and amortized into earnings over the anticipated period of benefit but rather recognized through earnings in the period incurred for those costs not incremental to issuing the contract. In addition to DAC, DIR related to fee income on investment contracts will also be deferred and recognized over the term of the contract. The change in measurement for both DAC and DIR has decreased opening surplus at January 1, 2010 respectively by $151 and $357 and has increased net earnings by $18 for the year ended December 31, 2010.

(k) Other Adjustments

In addition to the items described above, several other items required adjustments due to the transition from the previous CGAAP to IFRS which resulted in measurement changes. These adjustments include adopting the IFRS requirement for the use of the graded vesting method to account for awards that vest in installments over a period rather than the straight-line method, and the adoption and classification as liabilities for share-based payments that are cash settled (decreased opening surplus at January 1, 2010 by $15 net of tax), preferred shares classified as held for trading under the previous CGAAP now being carried at amortized cost under IFRS (increased opening surplus at January 1, 2010 by $4 before tax), and the capitalization of transaction costs on other than held for trading financial liabilities under IFRS that were expensed under the previous CGAAP (increased opening surplus at January 1, 2010 by $36 before tax). Other adjustments have decreased net earnings by $21 for the year ended December 31, 2010.

(l) Tax Impact of IFRS Adjustments

The tax effect of the above adjustments, excluding the uncertain tax provisions, is an increase to income tax liabilities of $90 at transition (an increase of $91 to shareholders' equity and a decrease of $1 to participating account surplus), and a decrease of $2 for the year ended December 31, 2010.

(m) Adjustment Related to Participating Account Surplus in Subsidiaries

The total impact to participating account was an increase of $41 at transition and a decrease of $9 for the year ended December 31, 2010.

(n) Goodwill and Intangible Asset Measurement and Impairment Testing

Goodwill and intangible assets under IFRS are measured using the cost model, based on the recoverable amount which is the greater of the value-in-use and fair value less cost to sell. The recoverable amount calculated under IFRS approximates the previous CGAAP carrying value at January 1, 2010 and therefore no transitional adjustment was required.

At December 31, 2011, the Company had $919 (US$901) of impaired intangible assets impaired in 2008 for which conditions have not been met in order to reverse the impairment charge.

At each reporting date, the Company reviews goodwill and intangible assets for indicators of impairment or reversals of impairment on the intangible assets. In the event that certain conditions have been met, the Company is required to reverse the impairment charge, or a portion thereof, on intangible assets.

Under the previous CGAAP, goodwill is tested for impairment by comparing the fair value of the reporting unit to which the goodwill is associated with its carrying value. Under IFRS, the carrying value of goodwill is tested for impairment by reference to the CGU in which goodwill is associated. A CGU represents the lowest level in which goodwill is monitored for internal reporting purposes. This change in impairment testing had no impact on the Company's financial statements at transition.

(o) Recognition of Contingent Liabilities

Under the previous CGAAP, contingent liabilities are recognized if it is "likely" whereas under IFRS contingent liabilities are recognized if it is "probable" that a loss will ultimately be incurred in relation to the matter. The change in the recognition threshold has not resulted in additional provisions being recognized at January 1, 2010.

(p) Recognition of Deferred Tax Assets

Previous CGAAP limited the amount of future income tax assets recognized to the amount that is 'more likely than not' to be realized whereas IFRS recognizes a deferred tax asset if it is more likely than not that sufficient future taxable profit will be available to recover the asset. The change in measurement criteria has not impacted consolidated net earnings and equity at January 1, 2010.

Presentation and Classification Differences

(q) Presentation of Real Estate Properties

Properties classified as real estate under the previous CGAAP are reclassified to investment properties of $2,613 and owner occupied properties of $401 in the Consolidated Balance Sheets under IFRS.

(r) Presentation of Reinsurance Accounts

Reinsurance accounts will be presented on a gross basis on the Consolidated Balance Sheets totalling $2,800 of reinsurance assets with an offsetting increase to insurance and investment contract liabilities with no impact to shareholders' equity. Funds withheld asset and liability accounts have also been adjusted for gross presentation of $145. Gross presentation of the reinsurance revenue and expenses is also required within the Consolidated Statements of Earnings.

(s) Reclassification of Deferred Acquisition Costs

The DAC of $447 recognized on investment contracts that was previously included within policy liabilities under the previous CGAAP has been reclassified to other assets on the Consolidated Balance Sheets.

(t) Presentation of Insurance and Investment Contract Liabilities

Under the previous CGAAP, all policyholder related liabilities are classified as actuarial liabilities and valued using CALM. Under IFRS 4, contracts are classified and measured depending on the existence of significant insurance risk. If significant insurance risk exists, the contract is classified as an insurance contract and IFRS permits the Company to continue with measuring insurance contract liabilities using CALM. If significant insurance risk does not exist, then the contract is classified as an investment contract and measured at either fair value or amortized cost. The change in reclassification has had no impact on opening surplus at January 1, 2010 or consolidated earnings and comprehensive income at December 31, 2010.

The reconciled amount of policy liabilities under the previous CGAAP to insurance and investment contract liabilities under IFRS at transition is as follows:

Policy liabilities under CGAAP at December 31, 2009 comprises:	
Actuarial liabilities	$ 98,059
Provision for claims	1,308
Provision for policyholder dividends	606
Provision for experience rating refunds	317
Policyholder funds	2,361
	$ 102,651
IFRS conversion adjustments:	
Remeasurement of DAC	151
Fair value of investment properties backing liabilities	(203)
Recognition of deferred net realized gains	23
Sub-total – IFRS conversion adjustments	(29)
IFRS reclassification adjustments:	
DAC to other assets	447
Reinsurance assets offset by reinsurance liabilities	2,800
Sub-total – IFRS reclassification adjustments	3,247
Total insurance and investment contract liabilities under IFRS at January 1, 2010	$ 105,869
Attributable to:	
Insurance contract liabilities	$ 105,028
Investment contract liabilities	$ 841

3. Reconciliations of IFRS Equity and Comprehensive Income (cont'd)

(u) Presentation of Segregated Funds on the Consolidated Balance Sheets

The assets and liabilities of the segregated funds, totalling $87.4 billion at January 1, 2010, will be included at fair value on the Consolidated Balance Sheets as a line item within both assets and liabilities under IFRS. There was no measurement change impacting shareholders' equity.

(v) Presentation of Non-Controlling Interests within Equity

Under the previous CGAAP, non-controlling interests were presented in the mezzanine between liabilities and equity whereas under IFRS non-controlling interest is presented within the equity section of the Consolidated Balance Sheets. The reclassification of non-controlling interests from liabilities of $2,004 relates to participating account surplus and the $306 relates primarily to preferred shares issued by subsidiaries. There was an increase of $2,310 to equity as a result of this change in presentation at transition to IFRS.

(w) Future Accounting Policies

In addition, the Company may be impacted in the future by the IFRSs set out in the following table:

Revised standard	Summary of proposed changes
IFRS 4 – *Insurance Contracts*	The IASB issued an exposure draft proposing changes to the accounting standard for insurance contracts in July 2010. The proposal would require 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. This is vastly different from the connection between insurance assets and liabilities considered under CALM and may cause significant volatility in the results of the Company. The exposure draft also proposes changes to the presentation and disclosure within the financial statements. The Company will continue to measure insurance contract liabilities using CALM until such time when a new IFRS for insurance contract measurement is issued. A final standard is not expected to be implemented for several years; the Company continues to actively monitor developments in this area.
IFRS 9 – *Financial Instruments*	The IASB tentatively approved the adoption of the proposed new IFRS 9, *Financial Instruments* standard to be effective January 1, 2015. The new standard requires all financial assets to be classified on initial recognition at amortized cost or fair value while eliminating the existing categories of available for sale, held to maturity, and loans and receivables. The new standard also requires: • embedded derivatives to be assessed for classification together with their financial asset host; • a single expected loss impairment method be used for financial assets; and • amendments to the criteria for hedge accounting and measuring effectiveness. 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, *Financial Instruments* – impairment methodology, hedge accounting, and asset and liability offsetting – are finalized. The Company continues to actively monitor developments in this area.
IFRS 10 – *Consolidated Financial Statements*; IFRS 11 – *Joint Arrangements*; IFRS 12 – *Disclosure of Interest in Other Entities*	Effective January 1, 2013, the Company plans to adopt IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities* for the presentation and preparation of its consolidated financial statements. IFRS 10, *Consolidated Financial Statements* uses consolidated principles based on a revised definition of control. The definition of control is 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. IFRS 11, *Joint Arrangements* separates jointly controlled entities between joint operations and joint ventures. The standard has eliminated the option of using proportionate consolidation for accounting in the interests in joint ventures, now requiring an entity to use the equity method of accounting for interests in joint ventures. IFRS 12, *Disclosure of Interests in Other Entities* proposes new disclosure requirements for the interest an entity has in subsidiaries, joint arrangements, associates, and structured entities. The standard requires enhanced disclosure including how control was determined and any restrictions that might exist on consolidated assets and liabilities presented within the financial statements. The Company is currently evaluating the impact of the above standards on its consolidation procedures and disclosure in preparation of the January 1, 2013 transition date.
IFRS 13 – *Fair Value Measurement*	Effective January 1, 2013, the Company will adopt the guidance in IFRS 13, *Fair Value Measurement* for the measurement and disclosure of assets and liabilities held at fair value. The standard refines the measurement and disclosure requirements and aims to achieve consistency with other standard setters to improve the visibility to financial statement users. The Company is currently evaluating the impact this standard will have on its financial statements when it becomes effective January 1, 2013.
IAS 1 – *Presentation of Financial Statements*	Effective on January 1, 2013, the Company will adopt the guidance in the amended IAS 1, *Presentation of Financial Statements*. The amended standard includes requirements that OCI be classified by nature and grouped between those items that will be reclassified subsequently to profit or loss (when specific conditions are met) and those that will not be reclassified. Other amendments include changes to discontinued operations and overall financial statement presentation. The Company is evaluating the impact this standard will have on the presentation of its financial statements.

Revised standard	Summary of proposed changes
IAS 17 – *Leases*	The IASB issued an exposure draft proposing 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. The new classification would be the right-of-use model, replacing the operating and finance lease accounting models that currently exist. The full impact of adoption of the proposed changes will be determined once the final lease standard is issued, which is proposed to be in 2012.
IAS 19 – *Employee Benefits*	The IASB published an amended version of this standard in June 2011 that eliminates the corridor approach for actuarial gains and losses resulting in those gains and losses being recognized immediately through OCI while the net pension asset or liability would reflect the full funded status of the plan on the Consolidated Balance Sheets. Further, the standard includes changes to how the defined benefit obligation and the fair value of the plan assets would be presented within the financial statements of an entity. The Company will continue to use the corridor method until January 1, 2013 when the revised IAS for employee benefits becomes effective.

4. Cash and Cash Equivalents

	December 31 2011	December 31 2010	January 1 2010
Cash on hand and at bank	$ 812	$ 576	$ 916
Short-term deposits	1,244	1,264	2,511
Balance, end of period	$ 2,056	$ 1,840	$ 3,427

As at December 31, 2011, December 31, 2010 and January 1, 2010 no cash has been restricted for use by the Company.

5. Portfolio Investments

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value	Market value	Carrying value	Market value	Carrying value	Market value
Bonds						
Designated fair value through profit or loss (1)	$ 59,856	$ 59,856	$ 54,585	$ 54,585	$ 50,616	$ 50,616
Classified fair value through profit or loss (1)	1,853	1,853	1,748	1,748	1,759	1,759
Available for sale	6,620	6,620	6,580	6,580	4,607	4,607
Loans and receivables	9,744	10,785	9,290	9,942	9,165	9,421
	78,073	79,114	72,203	72,855	66,147	66,403
Mortgage Loans						
Residential	5,996	6,424	5,640	5,945	6,174	6,388
Non-residential	11,436	12,238	10,475	10,935	10,510	10,503
	17,432	18,662	16,115	16,880	16,684	16,891
Stocks						
Designated fair value through profit or loss (1)	5,502	5,502	5,364	5,364	4,928	4,928
Available for sale	864	864	1,006	1,006	1,186	1,186
Other	338	406	330	399	328	389
	6,704	6,772	6,700	6,769	6,442	6,503
Investment properties	3,201	3,201	2,957	2,957	2,613	2,613
	$ 105,410	$ 107,749	$ 97,975	$ 99,461	$ 91,886	$ 92,410

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

As at December 31, 2011, the Consolidated Balance Sheets value of portfolio investments which were sold in repurchase agreements related to mortgages was nil ($933 at December 31, 2010).

5. Portfolio Investments (cont'd)

(b) Carrying value of bonds and mortgages maturing over the current and non-current term are as follows:

	December 31, 2011			
	Carrying Value			
	Term to maturity			
	1 year or less	**1–5 years**	**Over 5 years**	**Total**
Bonds	**$ 7,363**	**$ 17,028**	**$ 53,367**	**$ 77,758**
Mortgage loans	**1,522**	**5,646**	**10,244**	**17,412**
	$ 8,885	**$ 22,674**	**$ 63,611**	**$ 95,170**

	December 31, 2010			
	Carrying Value			
	Term to maturity			
	1 year or less	1–5 years	Over 5 years	Total
Bonds	$ 7,829	$ 15,213	$ 48,833	$ 71,875
Mortgage loans	1,204	5,043	9,835	16,082
	$ 9,033	$ 20,256	$ 58,668	$ 87,957

	January 1, 2010			
	Carrying Value			
	Term to maturity			
	1 year or less	1–5 years	Over 5 years	Total
Bonds	$ 6,704	$ 14,751	$ 44,435	$ 65,890
Mortgage loans	1,288	4,897	10,442	16,627
	$ 7,992	$ 19,648	$ 54,877	$ 82,517

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

(c) Stocks include the Company's investment in an affiliated company, IGM, a member of the Power Financial Corporation group of companies, over which it exerts significant influence but does not control. The Company's proportionate share of IGM's earnings is recorded in net investment income in the Consolidated Statements of Earnings. The Company owns 9,203,309 shares of IGM at December 31, 2011 (9,203,962 at December 31, 2010) representing a 3.57% ownership interest (3.52% at December 31, 2010). The Company uses the equity method to account for its investment in IGM as it exercises significant influence. Significant influence arises from several factors, including, but not limited to the following: common control of IGM by Power Financial Corporation, shared representation of directors on the Boards of Directors of the Company and IGM, interchange of managerial personnel, and certain shared strategic alliances and significant intercompany transactions and services agreements that influence the financial and operation policies of both companies.

	2011	2010
Carrying value, beginning of year	**$ 330**	$ 328
Equity method earnings	**27**	21
Dividends	**(19)**	(19)
Carrying value, end of year	**$ 338**	$ 330
Share of equity, end of year	**$ 157**	$ 152
Fair value, end of year	**$ 406**	$ 399

The Company and IGM both have a year-end reporting date of December 31 and as a consequence, the Company reports IGM's financial information by estimating the amount of income attributable to the Company, based on prior quarter information as well as consensus expectations, to complete equity accounting. The difference between actual and estimated results is reflected in the subsequent quarter and is not material to the Company's financial statements.

IGM's financial information as at December 31, 2011 can be obtained in its publicly available information.

At December 31, 2011 and 2010 IGM owned 37,787,388 common shares of the Company.

(d) Included in portfolio investments are the following:

(i) Carrying amount of impaired investments

	December 31 2011	December 31 2010	January 1 2010
Impaired amounts by type [(1)]			
Fair value through profit or loss	$ **290**	$ 302	$ 239
Available for sale	**51**	29	23
Loans and receivables	**35**	50	70
Total	$ **376**	$ 381	$ 332

Provisions on loans and receivables were $36 at December 31, 2011, $64 at December 31, 2010 and $81 at January 1, 2010.
(1) Excludes amounts in funds held by ceding insurers of nil at December 31, 2011, $11 at December 31, 2010 and $6 at January 1, 2010.

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

	2011			2010		
	Bonds	**Mortgage loans**	**Total**	Bonds	Mortgage loans	Total
Balance, beginning of year	$ **36**	$ **28**	$ **64**	$ 44	$ 37	$ 81
Net provision (recovery) for credit losses – in year	**(20)**	**7**	**(13)**	(5)	3	(2)
Write-offs, net of recoveries	**(14)**	**(1)**	**(15)**	(1)	(7)	(8)
Other (including foreign exchange rate changes)	**–**	**–**	**–**	(2)	(5)	(7)
Balance, end of year	$ **2**	$ **34**	$ **36**	$ 36	$ 28	$ 64

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

(iii) The Company holds investments with restructured terms or which have been exchanged for securities with amended terms. These investments are performing according to their new terms. Their carrying value is as follows:

	December 31 2011	December 31 2010	January 1 2010
Bonds	$ **16**	$ 23	$ 36
Bonds with equity conversion features	**119**	150	169
Mortgages	**17**	18	1
	$ **152**	$ 191	$ 206

(e) Net investment income comprises the following:

	2011					
	Bonds	**Mortgage loans**	**Stocks**	**Investment properties**	**Other**	**Total**
Regular net investment income:						
Investment income earned	$ **3,773**	$ **878**	$ **190**	$ **254**	$ **413**	$ **5,508**
Net realized gains (losses) *(available for sale)*	**119**	**–**	**5**	**–**	**–**	**124**
Net realized gains (losses) *(other classifications)*	**11**	**16**	**–**	**–**	**–**	**27**
Net recovery (provision) for credit losses *(loans and receivables)*	**20**	**(7)**	**–**	**–**	**–**	**13**
Other income and expenses	**–**	**–**	**–**	**(65)**	**(69)**	**(134)**
	3,923	**887**	**195**	**189**	**344**	**5,538**
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains (losses) *(classified fair value through profit or loss)*	**74**	**–**	**–**	**–**	**–**	**74**
Net realized/unrealized gains (losses) *(designated fair value through profit or loss)*	**4,166**	**–**	**(280)**	**143**	**61**	**4,090**
	4,240	**–**	**(280)**	**143**	**61**	**4,164**
Net investment income	$ **8,163**	$ **887**	$ **(85)**	$ **332**	$ **405**	$ **9,702**

5. Portfolio Investments (cont'd)

	2010					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Regular net investment income:						
Investment income earned	$ 3,813	$ 879	$ 207	$ 242	$ 588	$ 5,729
Net realized gains (losses) *(available for sale)*	72	–	10	–	–	82
Net realized gains (losses) *(other classifications)*	14	20	–	–	–	34
Net recovery (provision) for credit losses *(loans and receivables)*	5	(3)	–	–	–	2
Other income and expenses	–	–	–	(64)	(74)	(138)
	3,904	896	217	178	514	5,709
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains (losses) *(classified fair value through profit or loss)*	40	–	–	–	–	40
Net realized/unrealized gains (losses) *(designated fair value through profit or loss)*	3,012	–	603	162	8	3,785
	3,052	–	603	162	8	3,825
Net investment income	$ 6,956	$ 896	$ 820	$ 340	$ 522	$ 9,534

Investment income earned comprises income from investments that are classified as available for sale, loans and receivables and classified or designated as fair value through profit or loss. Investment income from bonds and mortgages includes interest income and premium and discount amortization. Income from stocks includes dividends and equity income from the investment in IGM. Investment properties income includes rental income earned on investment properties, ground rent income earned on leased and sub-leased land, fee recoveries, lease cancellation income, and interest and other investment income earned on investment properties.

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

	2011	2010
Balance, beginning of year	**$ 2,957**	$ 2,613
Additions	**161**	353
Change in fair value through profit or loss	**143**	162
Disposals	**(99)**	(16)
Foreign exchange rate changes	**39**	(155)
Balance, end of year	**$ 3,201**	$ 2,957

6. Funds Held by Ceding Insurers

Included in funds held by ceding insurers of $9,923 at December 31, 2011 ($9,856 at December 31, 2010 and $10,984 at January 1, 2010) is an agreement with Standard Life Assurance Limited (Standard Life). During 2008, Canada Life International Re Limited (CLIRE), the Company's indirect wholly-owned Irish reinsurance subsidiary, signed an agreement with Standard Life, a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of payout annuities. Under the agreement, CLIRE is required to put amounts on deposit with Standard Life and CLIRE has assumed the credit risk on the portfolio of assets included in the amounts on deposit. These amounts on deposit are included in funds held by ceding insurers on the Consolidated Balance Sheets. Income and expenses arising from the agreement are included in net investment income on the Consolidated Statements of Earnings (see note 5).

At December 31, 2011 CLIRE had amounts on deposit of $9,411 ($9,333 at December 31, 2010 and $10,329 at January 1, 2010). The details of the funds on deposit and related credit risk on the funds are as follows:

(a) Carrying values and estimated market values:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value	**Market value**	Carrying value	Market value	Carrying value	Market value
Cash and cash equivalents	**$ 49**	**$ 49**	$ 138	$ 138	$ 25	$ 25
Bonds	**9,182**	**9,182**	9,031	9,031	10,121	10,121
Other assets	**180**	**180**	164	164	183	183
	$ 9,411	**$ 9,411**	$ 9,333	$ 9,333	$ 10,329	$ 10,329
Supporting:						
Reinsurance liabilities	**9,082**	**9,082**	8,990	8,990	9,999	9,999
Surplus	**329**	**329**	343	343	330	330
	$ 9,411	**$ 9,411**	$ 9,333	$ 9,333	$ 10,329	$ 10,329

(b) Included in the amounts on deposit are impaired investments with a carrying amount of nil ($11 at December 31, 2010 and $6 at January 1, 2010) that are net of impairments of nil ($17 at December 31, 2010 and $4 at January 1, 2010).

(c) The following table provides details of the carrying value of bonds included in the funds on deposit by industry sector:

	December 31 2011	December 31 2010	January 1 2010
Bonds issued or guaranteed by:			
Provincial, state and municipal governments	**$ 88**	$ 37	$ 41
Other foreign governments	**3,074**	3,250	3,913
Government related	**369**	252	292
Supranationals	**128**	107	115
Asset-backed securities	**242**	244	242
Residential mortgage backed securities	**73**	54	81
Banks	**1,807**	2,040	2,232
Other financial institutions	**747**	652	681
Basic materials	**21**	19	16
Communications	**239**	241	278
Consumer products	**404**	464	517
Industrial products/services	**26**	14	13
Natural resources	**220**	147	218
Real estate	**381**	373	393
Transportation	**117**	94	97
Utilities	**1,135**	950	962
Miscellaneous	**111**	93	30
Total bonds	**$ 9,182**	$ 9,031	$ 10,121

(d) Asset quality:

Bond Portfolio Quality	**December 31 2011**	December 31 2010	January 1 2010
AAA	**$ 3,520**	$ 3,542	$ 4,318
AA	**1,819**	1,725	1,843
A	**3,116**	3,019	3,181
BBB	**468**	396	409
BB and lower	**259**	349	370
Total bonds	**$ 9,182**	$ 9,031	$ 10,121

7. Financial Instrument Risk Management

The Company has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity).

The following sections describe how the Company manages each of these risks.

(a) Credit Risk

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

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

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.
- Investment guidelines also specify collateral requirements.
- Portfolios are monitored continuously, and reviewed regularly with the Board of Directors or the Investment Committee of the Board of Directors.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators.
- The Company is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

7. Financial Instrument Risk Management (cont'd)

(i) Maximum Exposure to Credit Risk

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

	December 31 2011	December 31 2010	January 1 2010
Cash and cash equivalents	$ 2,056	$ 1,840	$ 3,427
Bonds			
Fair value through profit or loss	61,709	56,333	52,375
Available for sale	6,620	6,580	4,607
Loans and receivables	9,744	9,290	9,165
Mortgage loans	17,432	16,115	16,684
Loans to policyholders	7,162	6,827	6,957
Funds held by ceding insurers (1)	9,923	9,856	10,984
Reinsurance assets	2,061	2,533	2,800
Other financial assets	3,764	3,934	4,115
Derivative assets	968	984	717
Total balance sheets maximum credit exposure	$ 121,439	$ 114,292	$ 111,831

(1) Includes $9,411 ($9,333 at December 31, 2010 and $10,329 at January 1, 2010) of funds held by ceding insurers where the Company retains the credit risk of the assets supporting the liabilities ceded (see note 6).

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. The Company has $21 of collateral received in 2011 ($24 of collateral received at December 31, 2010 and $35 of collateral received at January 1, 2010) relating to derivative assets.

(ii) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following tables provide details of the carrying value of bonds by industry sector and geographic distribution:

	December 31, 2011			
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Canadian federal government	$ 4,328	$ 2	$ 42	$ 4,372
Provincial, state, and municipal governments	6,430	1,980	53	8,463
U.S. Treasury and other U.S. agencies	271	2,857	1,006	4,134
Other foreign governments	185	25	8,216	8,426
Government related	1,293	–	955	2,248
Supranationals	443	12	211	666
Asset-backed securities	2,696	3,401	803	6,900
Residential mortgage backed securities	26	638	146	810
Banks	2,168	416	1,858	4,442
Other financial institutions	855	1,449	1,615	3,919
Basic materials	233	748	214	1,195
Communications	508	221	501	1,230
Consumer products	1,848	1,813	1,771	5,432
Industrial products/services	695	825	212	1,732
Natural resources	1,127	560	554	2,241
Real estate	608	–	1,610	2,218
Transportation	1,721	672	624	3,017
Utilities	3,792	2,689	3,158	9,639
Miscellaneous	2,024	814	277	3,115
Total long term bonds	31,251	19,122	23,826	74,199
Short term bonds	2,980	323	571	3,874
	$ 34,231	$ 19,445	$ 24,397	$ 78,073

	December 31, 2010			
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Canadian federal government	$ 3,548	$ –	$ 31	$ 3,579
Provincial, state, and municipal governments	5,619	1,815	62	7,496
U.S. Treasury and other U.S. agencies	335	2,851	976	4,162
Other foreign governments	216	11	7,617	7,844
Government related	1,057	–	946	2,003
Supranationals	381	11	223	615
Asset-backed securities	2,728	3,450	842	7,020
Residential mortgage backed securities	25	745	111	881
Banks	2,183	442	1,993	4,618
Other financial institutions	1,057	1,359	1,470	3,886
Basic materials	201	587	182	970
Communications	589	246	477	1,312
Consumer products	1,608	1,419	1,495	4,522
Industrial products/services	544	726	181	1,451
Natural resources	997	561	422	1,980
Real estate	422	–	1,400	1,822
Transportation	1,557	563	464	2,584
Utilities	3,266	2,433	2,794	8,493
Miscellaneous	1,728	628	232	2,588
Total long term bonds	28,061	17,847	21,918	67,826
Short term bonds	2,822	816	739	4,377
	$ 30,883	$ 18,663	$ 22,657	$ 72,203

	January 1, 2010			
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Canadian federal government	$ 2,264	$ 1	$ 14	$ 2,279
Provincial, state, and municipal governments	4,917	1,333	58	6,308
U.S. Treasury and other U.S. agencies	240	2,620	758	3,618
Other foreign governments	212	–	6,652	6,864
Government related	937	–	916	1,853
Supranationals	516	4	436	956
Asset-backed securities	2,636	3,306	851	6,793
Residential mortgage backed securities	46	842	60	948
Banks	2,201	453	2,299	4,953
Other financial institutions	1,021	1,336	1,507	3,864
Basic materials	151	571	198	920
Communications	598	276	473	1,347
Consumer products	1,384	1,351	1,664	4,399
Industrial products/services	516	651	206	1,373
Natural resources	1,000	710	581	2,291
Real estate	559	–	1,216	1,775
Transportation	1,414	585	495	2,494
Utilities	3,008	2,172	2,701	7,881
Miscellaneous	1,489	562	182	2,233
Total long term bonds	25,109	16,773	21,267	63,149
Short term bonds	2,406	455	137	2,998
	$ 27,515	$ 17,228	$ 21,404	$ 66,147

7. Financial Instrument Risk Management (cont'd)

The following tables provide details of the carrying value of mortgage loans by geographic location:

	December 31, 2011			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,591	$ 3,407	$ 7,022	$ 12,020
United States	–	811	1,999	2,810
Europe	79	108	2,415	2,602
	$ 1,670	$ 4,326	$ 11,436	$ 17,432

	December 31, 2010			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,622	$ 3,528	$ 6,691	$ 11,841
United States	–	464	1,517	1,981
Europe	–	26	2,267	2,293
	$ 1,622	$ 4,018	$ 10,475	$ 16,115

	January 1, 2010			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,695	$ 3,965	$ 6,371	$ 12,031
United States	–	485	1,509	1,994
Europe	–	29	2,630	2,659
	$ 1,695	$ 4,479	$ 10,510	$ 16,684

(iii) Asset Quality

Bond Portfolio Quality	December 31 2011	December 31 2010	January 1 2010
AAA	$ 29,612	$ 28,925	$ 24,653
AA	12,894	11,436	10,684
A	22,066	19,968	19,332
BBB	12,399	10,649	10,113
BB and lower	1,102	1,225	1,365
Total bonds	$ 78,073	$ 72,203	$ 66,147

Derivative Portfolio Quality	December 31 2011	December 31 2010	January 1 2010
Over-the-counter contracts (counterparty ratings):			
AAA	$ 12	$ 5	$ 5
AA	361	491	338
A	595	488	374
Total	$ 968	$ 984	$ 717

(iv) Loans Past Due, But Not Impaired

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

	December 31 2011	December 31 2010	January 1 2010
Less than 30 days	$ 3	$ 7	$ 45
30 – 90 days	1	2	6
Greater than 90 days	1	2	9
Total	$ 5	$ 11	$ 60

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

	December 31 2011	December 31 2010	January 1 2010
Participating	$ 852	$ 802	$ 755
Non-participating	1,648	1,516	1,712
	$ 2,500	$ 2,318	$ 2,467

(b) Liquidity Risk

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

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 72% of insurance and investment contract liabilities are non-cashable prior to maturity or subject to market value adjustments.
- Management monitors the use of lines of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit or the capital markets. The Company maintains a $200 million committed line of credit with a Canadian chartered bank.

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

	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
Debentures and other debt instruments	$ 4,313	$ 609	$ 1	$ 1	$ –	$ –	$ 3,702
Capital trust debentures (1)	800	–	–	–	–	–	800
Purchase obligations	136	65	35	16	16	4	–
Pension contributions	150	150	–	–	–	–	–
	$ 5,399	$ 824	$ 36	$ 17	$ 16	$ 4	$ 4,502

(1) Payments due have not been reduced to reflect that the Company held capital trust securities of $275 principal amount ($282 carrying value).

7. Financial Instrument Risk Management (cont'd)

(c) Market Risk

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

(i) Currency Risk

Currency risk relates to the Company operating and holding financial instruments in different currencies. For the assets backing insurance and investment contract liabilities that are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases. The Company has net investments in foreign operations. In addition, the Company's debt obligations are mainly denominated in Canadian dollars. In accordance with IFRS, foreign currency translation gains and losses from net investments in foreign operations, net of related hedging activities and tax effects, are recorded in AOCI. 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. The following policies and procedures are in place to mitigate the Company's exposure to currency risk:

- The Company uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments. Segmented Investment Guidelines include maximum tolerances for unhedged currency mismatch exposures.
- Foreign currency assets acquired to back liabilities are normally converted back to the currency of the liability using foreign exchange contracts.
- A 10% weakening of the Canadian dollar against foreign currencies would be expected to increase non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change to net earnings. A 10% strengthening of the Canadian dollar against foreign currencies would be expected to decrease non-participating insurance and investment contract liabilities and their supporting assets by approximately the same amount resulting in an immaterial change in net earnings.

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk:

- 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 managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- Where these products have benefit or expense payments that are dependent on inflation (inflation-indexed annuities, pensions and disability claims) 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.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets or real estate whose cash flows closely match the liability product cash flows. Where assets are not available to match certain period cash flows such as long-tail cash flows a portion of these are invested in equities and the rest are duration matched. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. To the extent these cash flows are matched, protection against interest rate change is achieved and any change in the fair value of the assets will be offset by a similar change in the fair value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or equities as described below.
- The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

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

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.19% (0.21% in 2010). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk.

One 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 shareholder earnings of the Company of a 1% immediate parallel shift in the yield curve. These interest rate changes will impact the projected cash flows.

- The effect of an immediate 1% parallel increase in the yield curve would be to decrease these insurance and investment contract liabilities by approximately $180 causing an increase in net earnings of approximately $123.
- The effect of an immediate 1% parallel decrease in the yield curve would be to increase these insurance and investment contract liabilities by approximately $731 causing a decrease in net earnings of approximately $511.

In addition to the above, if this change in the yield curve persisted for an extended period the range of the tested scenarios might change. The effect of an immediate 1% parallel decrease or increase in the yield curve persisting for a year would have immaterial additional effects on the reported insurance and investment contract liability.

(iii) Equity Risk

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

Some insurance and investment contract liabilities are supported by investment properties, common stocks and private equities; for example, segregated fund products and products with long-tail cash flows. Generally these liabilities will fluctuate in line with equity 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 $27, causing an increase in net earnings of approximately $21. A 10% decrease in equity markets would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $77, causing a decrease in net earnings of approximately $57.

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 $389, causing an increase in net earnings of approximately $292. A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $424, causing a decrease in net earnings of approximately $316.

Caution Related to Risk Sensitivities

In this document we have provided estimates of sensitivities and risk exposure measures for certain risks. These include the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons including:

- Assessment of the circumstances that led to the scenario may lead to changes in (re)investment approaches and interest rate scenarios considered,
- Changes in actuarial, investment return and future investment activity assumptions
- Actual experience differing from the assumptions
- Changes in business mix, effective tax rates and other market factors
- Interactions among these factors and assumptions when more than one changes; and
- The general limitations of our internal models.

7. Financial Instrument Risk Management (cont'd)

For these reasons, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined below. Given the nature of these calculations, we cannot provide assurance that the actual impact on net earnings attributed to shareholders will be as indicated.

(iv) Segregated funds guaranteed exposure

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. A significant decline in the market value of these funds could increase the Company's liability exposure for providing these guarantees. The Company's exposure to these guarantees at the balance sheet date was:

	December 31, 2011				
		Investment deficiency by benefit type			
	Market value	**Income**	**Maturity**	**Death**	**Total***
Canada	$ 22,883	$ –	$ 42	$ 301	$ 304
United States	8,013	641	–	119	760
Europe	2,214	1	121	134	134
Total	**$ 33,110**	**$ 642**	**$ 163**	**$ 554**	**$ 1,198**

	December 31, 2010				
		Investment deficiency by benefit type			
	Market value	Income	Maturity	Death	Total*
Canada	$ 23,324	$ –	$ 24	$ 135	$ 137
United States	7,985	342	–	113	454
Europe	2,095	–	118	119	119
Total	$ 33,404	$ 342	$ 142	$ 367	$ 710

* 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, 2011 and December 31, 2010.

8. Financial Instruments Fair Value Measurement

In accordance with IFRS 7, *Financial Instruments – Disclosures*, 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. Financial assets and liabilities utilizing Level 1 inputs include actively exchange traded equity securities and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 securities include those priced using a matrix which is based on credit quality and average life, government and agency securities, restricted stock, some private bonds and equities, most investment-grade and high-yield corporate bonds, most asset-backed securities (ABS) and most over-the-counter derivatives.

Level 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability. The prices of the majority of Level 3 securities were obtained from single broker quotes and internal pricing models. Financial assets and liabilities utilizing Level 3 inputs include certain bonds, certain ABS, and some private equities and investments in mutual and segregated funds where there are redemption restrictions and certain over-the-counter derivatives.

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.

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2011, December 31, 2010 and January 1, 2010 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

	December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Bonds	**$ –**	**$ 61,406**	**$ 303**	**$ 61,709**
Stocks	**5,485**	**3**	**14**	**5,502**
Total financial assets at fair value through profit or loss	**5,485**	**61,409**	**317**	**67,211**
Available for sale financial assets				
Bonds	**–**	**6,580**	**40**	**6,620**
Stocks	**96**	**7**	**1**	**104**
Total available for sale financial assets	**96**	**6,587**	**41**	**6,724**
Other assets – derivatives (1)	**–**	**968**	**–**	**968**
Total assets measured at fair value	**$ 5,581**	**$ 68,964**	**$ 358**	**$ 74,903**
Liabilities measured at fair value				
Other liabilities – derivatives (2)	**$ –**	**$ 316**	**$ –**	**$ 316**
Total liabilities measured at fair value	**$ –**	**$ 316**	**$ –**	**$ 316**

(1) Excludes collateral received of $21.
(2) Excludes collateral pledged of $45.

During 2011 no assets have been transferred from level 1 to level 2 (or level 2 to level 1) due to the stock no longer being active in a quoted market.

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Bonds	$ –	$ 56,021	$ 312	$ 56,333
Stocks	4,947	–	417	5,364
Total financial assets at fair value through profit or loss	4,947	56,021	729	61,697
Available for sale financial assets				
Bonds	–	6,538	42	6,580
Stocks	193	9	1	203
Total available for sale financial assets	193	6,547	43	6,783
Other assets – derivatives (1)	–	984	–	984
Total assets measured at fair value	$ 5,140	$ 63,552	$ 772	$ 69,464
Liabilities measured at fair value				
Other liabilities – derivatives (2)	$ –	$ 165	$ –	$ 165

(1) Excludes collateral received of $24.
(2) Excludes collateral pledged of $39.

During 2010 no assets have been transferred from level 1 to level 2 (or level 2 to level 1) due to the stock no longer being active in a quoted market.

8. Financial Instruments Fair Value Measurement (cont'd)

	January 1, 2010			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Bonds	$ –	$ 51,761	$ 614	$ 52,375
Stocks	4,783	–	145	4,928
Total financial assets at fair value through profit or loss	4,783	51,761	759	57,303
Available for sale financial assets				
Bonds	–	4,540	67	4,607
Stocks	285	1	1	287
Total available for sale financial assets	285	4,541	68	4,894
Other assets – derivatives (1)	–	700	17	717
Total assets measured at fair value	$ 5,068	$ 57,002	$ 844	$ 62,914
Liabilities measured at fair value				
Other liabilities – derivatives	$ –	$ 248	$ 3	$ 251

(1) Excludes collateral received of $35.

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value for the years ended December 31, 2011 and 2010:

	2011					
	Fair value through profit or loss bonds	**Available for sale bonds**	**Other assets – derivatives**	**Other liabilities – derivatives**	**Fair value through profit or loss stocks**	**Available for sale stocks**
Balance, beginning of year	**$ 312**	**$ 42**	**$ –**	**$ –**	**$ 417**	**$ 1**
Total gains/(losses)						
Included in net earnings	**52**	**1**	**–**	**–**	**35**	**–**
Included in OCI	**–**	**2**	**–**	**–**	**–**	**–**
Purchases	**–**	**–**	**–**	**–**	**65**	**–**
Sales	**(4)**	**–**	**–**	**–**	**(6)**	**–**
Settlements	**(57)**	**(5)**	**–**	**–**	**–**	**–**
Transfers out of Level 3	**–**	**–**	**–**	**–**	**(497)**	**–**
Balance, end of year	**$ 303**	**$ 40**	**$ –**	**$ –**	**$ 14**	**$ 1**
Total gains/(losses) for the year included in net earnings for assets held at December 31, 2011	**$ 43**	**$ 1**	**$ –**	**$ –**	**$ (3)**	**$ –**

	2010					
	Fair value through profit or loss bonds	Available for sale bonds	Other assets – derivatives	Other liabilities – derivatives	Fair value through profit or loss stocks	Available for sale stocks
Balance, beginning of year	$ 614	$ 67	$ 17	$ (3)	$ 145	$ 1
Total gains/(losses)						
Included in net earnings	16	(2)	(17)	–	16	–
Included in OCI	–	2	–	–	–	–
Purchases	–	–	–	–	288	–
Sales	(76)	–	–	–	(30)	–
Settlements	(95)	(5)	–	–	–	–
Transfers in to Level 3	5	–	–	–	–	–
Transfers out of Level 3	(152)	(20)	–	3	(2)	–
Balance, end of year	$ 312	$ 42	$ –	$ –	$ 417	$ 1
Total gains/(losses) for the year included in net earnings for assets held at December 31, 2010	$ 38	$ –	$ (17)	$ –	$ 16	$ –

9. Pledging of Assets

The amount of assets included in the Company's balance sheet which have a security interest by way of pledging is $577 ($554 at December 31, 2010 and $595 at January 1, 2010), in respect of reinsurance agreements.

10. Goodwill and Intangible Assets

(a) Goodwill

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

	2011	2010
Balance, beginning of year	$ 5,397	$ 5,406
Sale of subsidiary by London Reinsurance Group (LRG)	–	(3)
Changes in foreign exchange rates	4	(6)
Balance, end of year	$ 5,401	$ 5,397

Accumulated goodwill impairment losses and changes in accumulated goodwill impairment losses is as follows:

	2011	2010
Balance, beginning of year	$ 890	$ 944
Changes in foreign exchange rates	27	(54)
Balance, end of year	$ 917	$ 890

(b) Intangible Assets

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

(i) Indefinite life intangible assets:

	2011			
	Brands and trademarks	Customer contract related	Shareholder portion of acquired future participating account profit	Total
Cost				
Balance, beginning of year	$ 714	$ 2,264	$ 354	$ 3,332
Changes in foreign exchange rates	12	57	–	69
Balance, end of year	$ 726	$ 2,321	$ 354	$ 3,401
Accumulated impairment				
Balance, beginning of year	$ (91)	$ (801)	$ –	$ (892)
Changes in foreign exchange rates	(3)	(24)	–	(27)
Balance, end of year	$ (94)	$ (825)	$ –	$ (919)
Net carrying amount	$ 632	$ 1,496	$ 354	$ 2,482

	2010			
	Brands and trademarks	Customer contract related	Shareholder portion of acquired future participating account profit	Total
Cost				
Balance, beginning of year	$ 746	$ 2,378	$ 354	$ 3,478
Changes in foreign exchange rates	(32)	(114)	–	(146)
Balance, end of year	$ 714	$ 2,264	$ 354	$ 3,332
Accumulated impairment				
Balance, beginning of year	$ (97)	$ (849)	$ –	$ (946)
Changes in foreign exchange rates	6	48	–	54
Balance, end of year	$ (91)	$ (801)	$ –	$ (892)
Net carrying amount	$ 623	$ 1,463	$ 354	$ 2,440

10. Goodwill and Intangible Assets (cont'd)

(ii) Finite life intangible assets:

	2011					
	Customer contract related	**Distribution channels**	**Technology**	**Property leases**	**Software**	**Total**
Amortization period range	**10–20 years**	**30 years**	**5 years**	**5 years**	**5–10 years**	
Weighted average remaining amortization period	**12 years**	**22 years**	**1 year**	**1 year**	**–**	
Amortization method	**Straight-line**	**Straight-line**	**Straight-line**	**Straight-line**	**Straight-line**	
Cost						
Balance, beginning of year	**$ 564**	**$ 100**	**$ 12**	**$ 13**	**$ 378**	**$ 1,067**
Acquisitions	**–**	**–**	**–**	**–**	**31**	**31**
Changes in foreign exchange rates	**7**	**–**	**–**	**–**	**5**	**12**
Other	**–**	**(2)**	**–**	**–**	**54**	**52**
Balance, end of year	**$ 571**	**$ 98**	**$ 12**	**$ 13**	**$ 468**	**$ 1,162**
Accumulated amortization and impairment						
Balance, beginning of year	**$ (169)**	**$ (24)**	**$ (8)**	**$ (9)**	**$ (189)**	**$ (399)**
Impairment	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Changes in foreign exchange rates	**(1)**	**–**	**–**	**–**	**(3)**	**(4)**
Other	**–**	**–**	**–**	**–**	**13**	**13**
Amortization	**(34)**	**(3)**	**(2)**	**(3)**	**(54)**	**(96)**
Balance, end of year	**$ (204)**	**$ (27)**	**$ (10)**	**$ (12)**	**$ (237)**	**$ (490)**
Net carrying amount	**$ 367**	**$ 71**	**$ 2**	**$ 1**	**$ 231**	**$ 672**

	2010					
	Customer contract related	Distribution channels	Technology	Property leases	Software	Total
Amortization period range	10–20 years	30 years	5 years	5 years	5–10 years	
Weighted average remaining amortization period	14 years	22 years	2 years	2 years	–	
Amortization method	Straight-line	Straight-line	Straight-line	Straight-line	Straight-line	
Cost						
Balance, beginning of year	$ 579	$ 108	$ 13	$ 14	$ 334	$ 1,048
Acquisitions	–	–	–	–	27	27
Changes in foreign exchange rates	(15)	(8)	(1)	(1)	(10)	(35)
Other	–	–	–	–	27	27
Balance, end of year	$ 564	$ 100	$ 12	$ 13	$ 378	$ 1,067
Accumulated amortization and impairment						
Balance, beginning of year	$ (138)	$ (22)	$ (5)	$ (7)	$ (170)	$ (342)
Changes in foreign exchange rates	2	2	–	1	7	12
Other	–	–	–	–	23	23
Amortization	(33)	(4)	(3)	(3)	(49)	(92)
Balance, end of year	$ (169)	$ (24)	$ (8)	$ (9)	$ (189)	$ (399)
Net carrying amount	$ 395	$ 76	$ 4	$ 4	$ 189	$ 668

(c) Goodwill and indefinite life intangible assets have been assigned to cash generating units as follows:

	2011		
	Goodwill	**Indefinite life intangible assets**	**Total**
Canada			
Group	**$ 1,033**	**$ –**	**$ 1,033**
Individual insurance/wealth management	**2,740**	**973**	**3,713**
Europe			
Insurance and annuities	**1,500**	**107**	**1,607**
Reinsurance	**1**	**–**	**1**
United States			
Financial services	**127**	**–**	**127**
Asset management	**–**	**1,402**	**1,402**
	$ 5,401	**$ 2,482**	**$ 7,883**

	2010		
	Goodwill	Indefinite life intangible assets	Total
Canada			
Group	$ 1,033	$ –	$ 1,033
Individual insurance/wealth management	2,740	973	3,713
Europe			
Insurance and annuities	1,500	106	1,606
Reinsurance	–	–	–
United States			
Financial services	124	–	124
Asset management	–	1,361	1,361
	$ 5,397	$ 2,440	$ 7,837

(d) Recoverable Amount

The recoverable amount is determined as the higher of fair value less costs to sell and value-in-use. Fair value is determined using a combination of commonly accepted valuation methodologies, namely comparable trading multiples, comparable transaction multiples and discounted cash flow analysis. Comparable trading and transaction multiples methodologies calculate value by applying multiples observed in the market against historical results or projections approved by management as applicable. Value calculated by discounted cash flow analysis uses cash flow projections based on financial budgets approved by management covering an initial period (typically four or five years). Value beyond the initial period is derived from applying a terminal value multiple to the final year of the initial projection period. The terminal value multiple is a function of the discount rate and the estimated terminal growth rate. The estimated terminal growth rate is not to exceed the long-term average growth rate (inflation rate) of the markets in which the Company operates.

The key assumptions used for the discounted cash flow calculations are based on past experience and external sources of information. The key assumptions are as follows:

- Risk adjusted discount rates used for the calculation of present value are based on the Company's weighted average cost of capital.
- Economic assumptions are based on market yields on risk-free interest rates at the end of each reporting period.
- Terminal growth rate represents the rate used to extrapolate new business contributions beyond the business plan period, and is based on management's estimate of future growth and ranges between 1.5% and 3.0%, depending on the nature of the business.

11. Owner Occupied Properties and Other Fixed Assets

The carrying value of owner occupied properties and fixed assets and the changes in the carrying value of owner occupied properties and fixed assets is as follows:

	2011		2010	
	Owner occupied properties	**Other fixed assets**	Owner occupied properties	Other fixed assets
Carrying value, beginning of year	**$ 468**	**$ 580**	$ 455	$ 575
Less: accumulated depreciation/impairments	**(29)**	**(459)**	(26)	(437)
Net carrying value, beginning of year	**439**	**121**	429	138
Additions	**51**	**58**	23	33
Disposals	**–**	**(3)**	–	(6)
Depreciation	**(3)**	**(40)**	(4)	(39)
Net exchange differences	**4**	**1**	(9)	(5)
Net carrying value, end of period	**491**	**137**	439	121
Plus: accumulated depreciation/impairments	**32**	**480**	29	459
Carrying value, end of year	**$ 523**	**$ 617**	$ 468	$ 580

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

	December 31 2011	December 31 2010	January 1 2010
Canada	**$ 426**	$ 369	$ 351
United States	**175**	166	187
Europe	**27**	25	29
	$ 628	$ 560	$ 567

There are no restrictions on the title of the owner occupied properties and fixed assets nor are they pledged as security for debt.

12. Other Assets

(a) Other assets consist of the following:

	December 31 2011	December 31 2010	January 1 2010
Premiums in course of collection	**$ 422**	$ 393	$ 403
Interest due and accrued	**1,108**	1,046	1,072
Other investment receivables	**73**	230	172
Current income taxes	**181**	580	793
Prepaid expenses	**99**	113	80
Accounts receivable	**672**	654	758
Accrued pension asset (note 23)	**420**	314	266
Deferred acquisition costs (note 12(b))	**529**	508	501
Other	**779**	523	416
	$ 4,283	$ 4,361	$ 4,461

$3,334 of total other assets are expected to be realized within 12 months from the reporting date.

The above amounts due within 12 months exclude DAC. The changes in DAC are presented below in (b).

(b) Changes in deferred acquisition costs for investment contracts are as follows:

	2011	2010
Balance, beginning of year	**$ 508**	$ 501
Additions	**123**	136
Amortization	**(71)**	(47)
Foreign exchange	**6**	(41)
Disposals	**(37)**	(41)
	$ 529	$ 508

13. Segregated Funds for the Risk of Unitholders

(a) Segregated funds – consolidated net assets

	December 31 2011	December 31 2010	January 1 2010
Bonds	**$ 21,594**	$ 19,270	$ 16,056
Mortgage loans	**2,303**	2,058	1,744
Stocks	**63,885**	64,468	59,111
Investment properties	**5,457**	5,598	6,012
Cash and cash equivalents	**5,334**	5,414	5,658
Accrued income	**287**	245	195
Other liabilities	**(2,278)**	(2,226)	(1,281)
	$ 96,582	$ 94,827	$ 87,495

(b) Segregated funds – consolidated statements of changes in net assets

	2011	2010
Segregated funds net assets, beginning of year	**$ 94,827**	$ 87,495
Additions (deductions):		
Policyholder deposits	**13,462**	14,074
Net investment income	**755**	1,009
Net realized capital gains (losses) on investments	**1,048**	1,565
Net unrealized capital gains (losses) on investments	**(3,539)**	4,801
Unrealized gains (losses) due to changes in foreign exchange rates	**887**	(3,441)
Policyholder withdrawals	**(10,876)**	(10,830)
Net transfer from General Fund	**18**	154
	1,755	7,332
Segregated funds net assets, end of year	**$ 96,582**	$ 94,827

14. Insurance and Investment Contract Liabilities

(a) Insurance and investment contract liabilities

	December 31, 2011		
	Gross	Ceded	Net
Insurance contract liabilities	**$ 114,730**	**$ 2,061**	**$ 112,669**
Investment contract liabilities	**782**	**–**	**782**
	$ 115,512	**$ 2,061**	**$ 113,451**

	December 31, 2010		
	Gross	Ceded	Net
Insurance contract liabilities	$ 107,405	$ 2,533	$ 104,872
Investment contract liabilities	791	–	791
	$ 108,196	$ 2,533	$ 105,663

	January 1, 2010		
	Gross	Ceded	Net
Insurance contract liabilities	$ 105,028	$ 2,800	$ 102,228
Investment contract liabilities	841	–	841
	$ 105,869	$ 2,800	$ 103,069

(b) Composition of insurance and investment contract liabilities and related supporting assets

(i) The composition of insurance and investment contract liabilities is as follows:

	December 31, 2011		
	Gross	Ceded	Net
Participating			
Canada	**$ 26,470**	**$ (50)**	**$ 26,520**
United States	**8,639**	**18**	**8,621**
Europe	**1,230**	**–**	**1,230**
Non-Participating			
Canada	**27,099**	**919**	**26,180**
United States	**16,657**	**276**	**16,381**
Europe	**35,417**	**898**	**34,519**
	$ 115,512	**$ 2,061**	**$ 113,451**

14. Insurance and Investment Contract Liabilities (cont'd)

	December 31, 2010		
	Gross	Ceded	Net
Participating			
Canada	$ 25,093	$ 5	$ 25,088
United States	8,137	20	8,117
Europe	1,209	–	1,209
Non-Participating			
Canada	25,415	1,265	24,150
United States	14,896	301	14,595
Europe	33,446	942	32,504
	$ 108,196	$ 2,533	$ 105,663

	January 1, 2010		
	Gross	Ceded	Net
Participating			
Canada	$ 23,113	$ (12)	$ 23,125
United States	8,280	30	8,250
Europe	1,456	–	1,456
Non-Participating			
Canada	23,673	1,219	22,454
United States	14,190	363	13,827
Europe	35,157	1,200	33,957
	$ 105,869	$ 2,800	$ 103,069

(ii) The composition of the assets supporting liabilities and equity is as follows:

	December 31, 2011					
	Bonds	**Mortgage loans**	**Stocks**	**Investment properties**	**Other**	**Total**
Carrying value						
Participating liabilities						
Canada	**$ 11,862**	**$ 6,686**	**$ 3,864**	**$ 507**	**$ 3,551**	**$ 26,470**
United States	**4,059**	**152**	**–**	**–**	**4,428**	**8,639**
Europe	**855**	**56**	**176**	**22**	**121**	**1,230**
Non-participating liabilities						
Canada	**16,674**	**4,738**	**1,329**	**20**	**4,338**	**27,099**
United States	**13,523**	**2,369**	**–**	**–**	**765**	**16,657**
Europe	**20,449**	**2,506**	**119**	**2,092**	**10,251**	**35,417**
Other	**6,563**	**484**	**–**	**6**	**100,099**	**107,152**
Total equity	**4,088**	**441**	**1,216**	**554**	**9,805**	**16,104**
Total carrying value	**$ 78,073**	**$ 17,432**	**$ 6,704**	**$ 3,201**	**$ 133,358**	**$ 238,768**
Fair value	**$ 79,114**	**$ 18,662**	**$ 6,772**	**$ 3,201**	**$ 133,358**	**$ 241,107**

	December 31, 2010					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Canada	$ 10,872	$ 6,158	$ 3,775	$ 419	$ 3,869	$ 25,093
United States	3,823	169	–	–	4,145	8,137
Europe	804	66	185	27	127	1,209
Non-participating liabilities						
Canada	15,956	5,069	1,431	13	2,946	25,415
United States	12,695	1,474	–	–	727	14,896
Europe	18,970	2,189	108	1,914	10,265	33,446
Other	5,163	511	–	19	100,716	106,409
Total equity	3,920	479	1,201	565	8,651	14,816
Total carrying value	$ 72,203	$ 16,115	$ 6,700	$ 2,957	$ 131,446	$ 229,421
Fair value	$ 72,855	$ 16,880	$ 6,769	$ 2,957	$ 131,446	$ 230,907

	January 1, 2010					
	Bonds	Mortgage loans	Stocks	Investment properties	Other	Total
Carrying value						
Participating liabilities						
Canada	$ 10,244	$ 6,025	$ 3,535	$ 324	$ 2,985	$ 23,113
United States	3,763	216	–	–	4,301	8,280
Europe	784	77	224	33	338	1,456
Non-participating liabilities						
Canada	14,309	5,327	991	21	3,025	23,673
United States	11,915	1,451	–	–	824	14,190
Europe	18,923	2,535	131	1,683	11,885	35,157
Other	2,374	483	243	4	95,463	98,567
Total equity	3,835	570	1,318	548	8,437	14,708
Total carrying value	$ 66,147	$ 16,684	$ 6,442	$ 2,613	$ 127,258	$ 219,144
Fair value	$ 66,403	$ 16,891	$ 6,503	$ 2,613	$ 127,258	$ 219,668

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

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

(c) Changes in insurance contract liabilities

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

	2011		
	Participating		
	Gross liability	Reinsurance asset	Net
Balance, beginning of year	**$ 34,398**	**$ 25**	**$ 34,373**
Crown ancillary reclassification	**(89)**	**–**	**(89)**
Impact of new business	**133**	**–**	**133**
Normal change in force	**1,719**	**(14)**	**1,733**
Management action and changes in assumptions	**(139)**	**(45)**	**(94)**
Impact of foreign exchange rate changes	**281**	**2**	**279**
Balance, end of year	**$ 36,303**	**$ (32)**	**$ 36,335**

	Non-participating			
	Gross liability	Reinsurance asset	Net	Total Net
Balance, beginning of year	**$ 73,007**	**$ 2,508**	**$ 70,499**	**$ 104,872**
Crown ancillary reclassification	**89**	**–**	**89**	**–**
Impact of new business	**3,088**	**(329)**	**3,417**	**3,550**
Normal change in force	**1,910**	**476**	**1,434**	**3,167**
Management action and changes in assumptions	**(806)**	**(583)**	**(223)**	**(317)**
Impact of foreign exchange rate changes	**1,139**	**21**	**1,118**	**1,397**
Balance, end of year	**$ 78,427**	**$ 2,093**	**$ 76,334**	**$ 112,669**

	2010		
	Participating		
	Gross liability	Reinsurance asset	Net
Balance, beginning of year	$ 32,798	$ 18	$ 32,780
Impact of new business	193	–	193
Normal change in force	2,021	9	2,012
Management action and changes in assumptions	(5)	–	(5)
Impact of foreign exchange rate changes	(609)	(2)	(607)
Balance, end of year	$ 34,398	$ 25	$ 34,373

14. Insurance and Investment Contract Liabilities (cont'd)

	Non-participating			
	Gross liability	Reinsurance asset	Net	Total Net
Balance, beginning of year	$ 72,230	$ 2,782	$ 69,448	$ 102,228
Impact of new business	5,139	141	4,998	5,191
Normal change in force	(87)	(199)	112	2,124
Management action and changes in assumptions	(520)	(96)	(424)	(429)
Business movement from/to external parties	(1)	–	(1)	(1)
Impact of foreign exchange rate changes	(3,754)	(120)	(3,634)	(4,241)
Balance, end of year	$ 73,007	$ 2,508	$ 70,499	$ 104,872

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

In 2011, the major contributors to the increase in net insurance contract liabilities were the impact of new business ($3,550 increase) and the normal change in the in force business ($3,167 increase) primarily due to the change in fair value.

Net non-participating insurance contract liabilities decreased by $223 in 2011 due to management actions and assumption changes including a $68 decrease in Canada, a $132 decrease in Europe and a $23 decrease in the United States.

The Company adopted the revised Actuarial Standards of Practice for subsection 2350 relating to future mortality improvement in insurance contract liabilities for life insurance and annuities. The resulting decrease in net non-participating insurance contract liabilities for life insurance was $446 including a $182 decrease in Canada, a $242 decrease in Europe (primarily reinsurance) and a $22 decrease in the United States. The resulting change in net insurance contract liabilities for annuities was a $47 increase including a $53 increase in Canada, a $58 decrease in Europe and a $52 increase in the United States.

The remaining increase in Canada was primarily due to increased provisions for policyholder behavior in Individual Insurance ($172 increase), provisions for asset liability matching ($147 increase), updated base annuity mortality ($43 increase) and a reclassification from miscellaneous liabilities ($29 increase) partially offset by updated expenses and taxes ($137 decrease), updated morbidity assumptions ($101 decrease), updated base life insurance mortality ($38 decrease), modeling refinements across the Canadian Segment ($40 decrease) and reinsurance related management actions ($16 decrease).

The remaining increase in Europe was primarily due to increased provisions for policyholder behavior in reinsurance ($227 increase), updated base life insurance mortality ($50 increase) and updated morbidity assumptions ($15 increase) partially offset by modeling refinements in the U.K. and Reinsurance Segments ($69 decrease), updated base annuity mortality ($42 decrease), and reduced provisions for asset liability matching ($16 decrease).

The remaining decrease in the United States was primarily due to updated base annuity mortality ($28 decrease) and updated base life insurance mortality ($23 decrease).

Net participating insurance contract liabilities decreased by $94 in 2011 due to management actions and assumption changes. The decrease was primarily due to decreases in the provision for future policyholder dividends ($1,556 decrease), modeling refinements in Canada ($256 decrease), improved Individual Life mortality ($256 decrease including $27 from the Standards of Practice revision) and updated expenses and taxes ($15 decrease), partially offset by lower investment returns ($1,952 increase), and increased provisions for policyholder behavior ($40 increase).

In 2010, the major contributors to the increase in insurance contract liabilities was the impact of new business and the normal change in the in force business partially offset by the impact of foreign exchange rates.

Net non-participating insurance contract liabilities decreased by $424 in 2010 due to management actions and assumption changes including a $246 decrease in Canada, a $123 decrease in Europe and a $55 decrease in the United States. The decrease in Canada was primarily due to updated expenses and taxes in Individual Insurance ($86 decrease), improved Individual Life mortality ($64 decrease), improved Group Insurance morbidity ($62 decrease), modeling refinements across the Canadian Segment ($56 decrease) and reduced provisions for asset liability matching ($49 decrease) partially offset by increased provisions for policyholder behavior in Individual Insurance ($69 increase). The decrease in Europe was primarily due to reduced provisions for asset liability matching ($120 decrease), modeling refinements across the division ($97 decrease) and updated expenses ($25 decrease) partially offset by strengthened Reinsurance life mortality ($71 increase), strengthened longevity ($16 increase), strengthened Group Insurance morbidity ($13 increase), increased provisions for policyholder behavior ($10 increase) and asset default ($8 increase). The decrease in the United States was primarily due to improved Life mortality ($52 decrease), improved longevity ($6 decrease), modeling refinements ($4 decrease) partially offset by increased provisions for policyholder behavior ($8 increase).

Net participating insurance contract liabilities decreased by $5 in 2010 due to management actions and assumption changes. The decrease was primarily due to updated expenses ($261 decrease), improved investment returns ($20 decrease), and improved Individual Life mortality ($13 decrease) partially offset by modeling refinements ($213 increase), increases in the provision for future policyholder dividends ($66 increase) and increased provisions for policyholder behavior ($10 increase).

(d) Change in investment contract liabilities measured at fair value

	2011			2010		
	Gross	**Ceded**	**Net**	Gross	Ceded	Net
Balance, beginning of year	**$ 791**	**$ –**	**$ 791**	$ 841	$ –	$ 841
Normal change in force business	**(54)**	**–**	**(54)**	(28)	–	(28)
Investment experience	**35**	**–**	**35**	–	–	–
Impact of foreign exchange rate changes	**10**	**–**	**10**	(22)	–	(22)
Balance, end of year	**$ 782**	**$ –**	**$ 782**	$ 791	$ –	$ 791

The carrying value of investment contract liabilities approximates its fair value.

(e) Canadian Universal Life Embedded Derivatives

The Company bifurcated the index linked component of the universal life contracts as this embedded derivative is not closely related to the insurance host and is not itself an insurance contract. The forward contracts are contractual agreements in which the policyholder is entitled to the performance of the underlying index. The policyholder may select one or more of the following indices: the TSX, the S&P and the AEX.

14. Insurance and Investment Contract Liabilities (cont'd)

(f) Actuarial Assumptions

In the computation of insurance contract liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses, rates of policy termination and rates of utilization of elective policy options or provisions. The valuation assumptions use best estimates of future experience together with a margin for adverse deviation. These margins are necessary to provide for possibilities of misestimation and/or future deterioration in the best estimate assumptions and provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

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

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update 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. The actuarial standards were amended to remove the requirement that, for life insurance, any reduction in liabilities due to mortality improvement assumption be offset by an equal amount of provision for adverse deviation. Appropriate provisions have been made for future mortality deterioration on term insurance.

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

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.

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. Reflecting the long-term nature of the business, insurance contract liabilities have been established using cash flow valuation techniques including discounting. The insurance contract liabilities are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, insurance contract liabilities also include an amount for incurred but not reported losses (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 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 contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (see note 7(c)).

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.

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 termination rates at the renewal period for renewable term policies in Canada and Reinsurance. Industry experience has guided our persistency assumption for these products as our own experience is very limited.

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 re-sets (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, whenever it is clearly in the best interests of an informed policyholder to utilize an option, then it is assumed to be elected.

Policyholder dividends and adjustable policy features

Future policyholder dividends and other adjustable policy features are included in the determination of insurance contract liabilities with the assumption that policyholder dividends or adjustable benefits will change in the future in response to the relevant experience. The dividend and policy adjustments are determined consistent with policyholders' reasonable expectations, such expectations being influenced by the participating policyholder dividend policies and/or policyholder communications, marketing material and past practice. It is 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 shareholder earnings is reflected in the impacts of changes in best estimate assumptions above.

(g) Risk management

(i) Insurance risk

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

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

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

	2011	
	Changes in assumptions	Impact on profit or loss
Mortality	2%	$ (188)
Annuitant mortality	2%	$ (176)
Morbidity	5%	$ (181)
Investment returns		
Parallel shift in yield curve		
Increase	1%	$ 123
Decrease	1%	$ (511)
Change in equity markets		
Increase	10%	$ 21
Decrease	10%	$ (57)
Change in best estimate returns for equities		
Increase	1%	$ 292
Decrease	1%	$ (316)
Expenses	5%	$ (55)
Policy termination	10%	$ (435)

14. Insurance and Investment Contract Liabilities (cont'd)

	2010	
	Changes in assumptions	Impact on profit or loss
Mortality	2%	$ (159)
Annuitant mortality	2%	$ (172)
Morbidity	5%	$ (151)
Investment returns		
Parallel shift in yield curve		
Increase	1%	$ (25)
Decrease	1%	$ (279)
Change in equity markets		
Increase	10%	$ 25
Decrease	10%	$ (54)
Change in best estimate returns for equities		
Increase	1%	$ 242
Decrease	1%	$ (279)
Expenses	5%	$ (51)
Policy termination	10%	$ (320)

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

	December 31, 2011			December 31, 2010			January 1, 2010		
	Gross	**Ceded**	**Net**	Gross	Ceded	Net	Gross	Ceded	Net
Canada	**$ 53,569**	**$ 869**	**$ 52,700**	$ 50,508	$ 1,270	$ 49,238	$ 46,786	$ 1,207	$ 45,579
United States	**25,296**	**294**	**25,002**	23,033	321	22,712	22,470	393	22,077
Europe	**36,647**	**898**	**35,749**	34,655	942	33,713	36,613	1,200	35,413
	$115,512	**$ 2,061**	**$113,451**	$108,196	$ 2,533	$105,663	$ 105,869	$ 2,800	$103,069

(ii) Reinsurance risk

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

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

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

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

15. Financing Charges

Financing charges consist of the following:

	2011	2010
Operating charges:		
Interest on operating lines and short-term debt instruments	**$ 5**	$ 9
Financial charges:		
Interest on long-term debentures and other debt instruments	**231**	225
Dividends on preferred shares classified as liabilities	**–**	2
Subordinated debenture issue costs	**1**	4
Net interest on capital trust securities	**33**	32
Other	**19**	16
	284	279
	$ 289	$ 288

16. Debentures and Other Debt Instruments

(a) Debentures and other debt instruments consist of the following:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value	**Market value**	Carrying value	Market value	Carrying value	Market value
Short term						
Commercial paper and other short term debt instruments with interest rates from 0.20% to 0.39% (0.36% to 0.44% at December 31, 2010)	**$ 100**	**$ 100**	$ 91	$ 91	$ 102	$ 102
Revolving credit facility with interest equal to LIBOR plus 1.00% or U.S. Prime Rate Loan (U.S. $200)	**204**	**204**	213	213	273	273
Total short term	**304**	**304**	304	304	375	375
Long term						
Operating:						
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	**3**	**3**	4	4	5	5
Capital:						
Lifeco						
6.75% Debentures originally due August 10, 2015, redeeemed August 10, 2010, unsecured	**–**	**–**	–	–	200	207
6.14% Debentures due March 21, 2018, unsecured	**199**	**229**	199	226	199	218
6.74% Debentures due November 24, 2031, unsecured	**190**	**237**	190	232	190	216
6.67% Debentures due March 21, 2033, unsecured	**397**	**472**	397	463	397	431
5.998% Debentures due November 16, 2039, unsecured	**343**	**383**	343	375	342	345
4.65% Debentures due August 13, 2020, unsecured	**497**	**522**	497	503	–	–
	1,626	**1,843**	1,626	1,799	1,328	1,417
Canada Life						
6.40% subordinated debentures due December 11, 2028, unsecured	**100**	**115**	100	110	100	105
Great-West Life & Annuity Insurance Capital, LP						
6.625% Deferrable debentures due November 15, 2034, unsecured (U.S. $175)	**175**	**170**	169	161	180	138
Great-West Life & Annuity Insurance Capital, LP II						
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and thereafter, a rate of 2.538% plus the 3-month LIBOR rate, unsecured (U.S. $300)	**310**	**298**	295	297	312	277
Putnam Acquisition Financing LLC						
Term note due October 18, 2012, unsecured, bearing an interest rate of LIBOR plus 0.30% (U.S. $304)	**304**	**308**	301	297	319	319
Great-West Lifeco Finance (Delaware) LP						
Subordinated debentures due June 21, 2067 bearing an interest rate of 5.691% until June 21, 2017 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1.49%, unsecured	**994**	**1,028**	993	1,044	991	1,018
Great-West Lifeco Finance (Delaware) LP II						
Subordinated debentures due June 26, 2068 bearing an interest rate of 7.127% until June 26, 2018 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 3.78%, unsecured	**497**	**550**	496	556	496	554
Total long term	**4,009**	**4,315**	3,984	4,268	3,731	3,833
Total debentures and other debt instruments	**$ 4,313**	**$ 4,619**	$ 4,288	$ 4,572	$ 4,106	$ 4,208

16. Debentures and Other Debt Instruments (cont'd)

On August 10, 2010, the Company redeemed the $200 principal amount 6.75% debentures at par which had a maturity date of August 10, 2015.

On August 13, 2010, $500 principal amount debentures were issued at par and will mature on August 13, 2020. Interest on the debentures at the rate of 4.65% per annum will be payable semi-annually in arrears on February 13 and August 13 in each year, commencing February 13, 2011, until the date on which the debentures are repaid. The debentures are redeemable at any time in whole or in part at the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest.

17. Other Liabilities

(a) Other liabilities consist of the following:

	December 31 2011	December 31 2010	January 1 2010
Current income taxes	$ 478	$ 368	$ 379
Accounts payable	1,206	1,253	947
Pension and other post-employment benefits (note 23)	696	620	554
Deferred income reserve (note 17(b))	406	377	357
Other	1,064	1,590	1,901
Bank overdraft	437	429	341
	$ 4,287	$ 4,637	$ 4,479

$3,185 of total other liabilities are expected to be realized within 12 months from the reporting date.

The above amounts due within and after 12 months exclude DIR. The changes of DIR are presented below in (b).

(b) Changes in deferred income reserves are as follows:

	2011	2010
Balance, beginning of year	$ 377	$ 357
Additions	97	108
Amortization	(38)	(27)
Foreign exchange	5	(33)
Disposals	(35)	(28)
Balance, end of year	$ 406	$ 377

18. Capital Trust Securities

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value	Market value	Carrying value	Market value	Carrying value	Market value
Capital trust securities						
5.995% Capital trust securities due December 31, 2052, unsecured (GWLCT)	$ 350	$ 363	$ 350	$ 375	$ 350	$ 383
6.679% Capital trust securities due June 30, 2052, unsecured (CLCT)	300	307	300	320	300	331
7.529% Capital trust securities due June 30, 2052, unsecured (CLCT)	150	197	150	198	150	186
	800	867	800	893	800	900
Acquisition related fair market value adjustment	15	–	17	–	19	–
Trust securities held by consolidated group as temporary investments	(44)	(44)	(44)	(44)	(41)	(41)
Trust securities held by the Company as long-term investments	(238)	(246)	(238)	(253)	(238)	(258)
Total	$ 533	$ 577	$ 535	$ 596	$ 540	$ 601

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life, had issued $350 of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350, and Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued $450 of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450.

Distributions and interest on the capital trust securities are classified as financing charges on the Consolidated Statements of Earnings (see note 15). The market value for capital trust securities is determined by the bid-ask price. Refer to note 7 for financial instrument risk management disclosures.

On November 11, 2009 the Company launched an issuer bid whereby it offered to acquire up to 170,000 of the outstanding Great-West Life Trust Securities – Series A (GREATs) of GWLCT and up to 180,000 of the outstanding Canada Life Capital Securities – Series A (CLiCS) of CLCT. On December 18, 2009, pursuant to this offer the Company acquired 116,547 GREATs and 121,788 CLiCS for $261, plus accrued and unpaid interest. In connection with this transaction the Company issued $144 aggregate principal amount of 5.998% debentures due November 16, 2039 and paid cash of $122.

Subject to regulatory approval, GWLCT and CLCT may redeem the GREATs and CLiCS, in whole or in part, at any time. The CLiCS Series A securities are callable at par on June 30, 2012 and the GREATs Series A securities are callable at par on December 31, 2012.

19. Non-Controlling Interests

The Company had a controlling equity interest in Great-West Life, London Life, Canada Life, Putnam LLC and GWL&A at December 31, 2011 and 2010.

(a) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam LLC, GWL&A and their subsidiaries reflected in the Consolidated Statements of Earnings are as follows:

	2011	2010
Participating account		
Net earnings attributable to participating account before policyholder dividends		
Great-West Life	$ **173**	$ 146
London Life	**825**	697
Canada Life	**253**	241
GWL&A	**5**	5
	1,256	1,089
Policyholder dividends		
Great-West Life	**(134)**	(129)
London Life	**(758)**	(730)
Canada Life	**(242)**	(235)
GWL&A	**(2)**	(3)
	(1,136)	(1,097)
Net earnings – participating account	**120**	(8)
Preferred shareholder dividends of subsidiaries	**–**	15
Non-controlling interests in subsidiaries	**1**	–
Total	$ **121**	$ 7

(b) The carrying value of non-controlling interests consists of the following:

	December 31 2011	December 31 2010	January 1 2010
Participating account surplus:			
Great-West Life	$ **510**	$ 461	$ 442
London Life	**1,651**	1,536	1,563
Canada Life	**55**	41	35
GWL&A	**11**	7	5
	$ **2,227**	$ 2,045	$ 2,045
Preferred shares issued by subsidiaries:			
Great-West Life Series O, 5.55% Non-Cumulative	$ **–**	$ –	$ 157
Perpetual preferred shares issued by subsidiaries:			
CLFC Series B, 6.25% Non-Cumulative	$ **–**	$ –	$ 145
Acquisition related fair market value adjustment	**–**	–	2
	$ **–**	$ –	$ 147
Non-controlling interests in subsidiaries	$ **3**	$ 2	$ 2

19. Non-Controlling Interests (cont'd)

On December 31, 2010, Canada Life Financial Corporation (CLFC) redeemed all of its outstanding 6.25% Non-Cumulative Preferred Shares Series B for a total value of $150 or $25.00 per share. The difference of $5 between the carrying value of the shares and redemption value was charged to shareholder surplus in CLFC.

On October 29, 2010, Great-West Life redeemed all of its outstanding 5.55% Non-Cumulative Preferred Shares Series O for a total value of $157 or $25.00 per share.

Non-controlling interests in subsidiaries includes non-controlling interests in Putnam LLC controlled investments in institutional portfolio funds, hedge funds, Putnam LLC sponsored mutual funds and PanAgora Asset Management Inc.

(c) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam LLC, GWL&A and their subsidiaries reflected in OCI are as follows:

	2011	2010
Participating account		
Other comprehensive income (loss) attributable to participating account		
Great-West Life	**$ 10**	$ 2
London Life	**48**	6
Canada Life	**3**	–
GWL&A	**1**	–
Other comprehensive income (loss) – participating account	**$ 62**	$ 8

20. Share Capital

Authorized

Unlimited First Preferred Shares, Class A Preferred Shares and Second Preferred Shares,

Unlimited Common Shares

Issued and outstanding and fully paid

	December 31, 2011		December 31, 2010		January 1, 2010	
	Number	**Carrying Value**	Number	Carrying Value	Number	Carrying Value
Classified as liabilities						
Preferred shares:						
Designated as held for trading						
Series D, 4.70% Non-Cumulative First Preferred Shares	**–**	**$ –**	–	$ –	7,938,500	$ 199
Classified as equity						
Perpetual preferred shares:						
Series F, 5.90% Non-Cumulative First Preferred Shares	**7,741,790**	**$ 194**	7,895,615	$ 197	7,895,590	$ 197
Series G, 5.20% Non-Cumulative First Preferred Shares	**12,000,000**	**300**	12,000,000	300	12,000,000	300
Series H, 4.85% Non-Cumulative First Preferred Shares	**12,000,000**	**300**	12,000,000	300	12,000,000	300
Series I, 4.50% Non-Cumulative First Preferred Shares	**12,000,000**	**300**	12,000,000	300	12,000,000	300
Series L, 5.65% Non-Cumulative First Preferred Shares	**6,800,000**	**170**	6,800,000	170	6,800,000	170
Series M, 5.80% Non-Cumulative First Preferred Shares	**6,000,000**	**150**	6,000,000	150	–	–
Rate reset preferred shares:						
Series J, 6.00% Non-Cumulative First Preferred Shares	**9,200,000**	**230**	9,200,000	230	9,200,000	230
Series N, 3.65% Non-Cumulative First Preferred Shares	**10,000,000**	**250**	10,000,000	250	–	–
	75,741,790	**$ 1,894**	75,895,615	$ 1,897	59,895,590	$ 1,497
Common shares:						
Balance, beginning of period	**948,458,395**	**$ 5,802**	945,040,476	$ 5,751	945,040,476	$ 5,751
Issued under Stock Option Plan	**1,305,746**	**26**	3,417,919	51	–	–
Balance, end of period	**949,764,141**	**$ 5,828**	948,458,395	$ 5,802	945,040,476	$ 5,751

Preferred Shares

On November 23, 2010 the Company issued 10,000,000 Series N, 3.65% Non-Cumulative 5-Year Rate Reset First Preferred Shares at $25 per share. The shares are redeemable at the option of the Company on December 31, 2015 and on December 31 every five years thereafter for $25 per share plus all declared and unpaid dividends to the date fixed for redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series N share conditions, each Series N share is convertible into one Series O First Preferred Share at the option of the holders on December 31, 2015 and on December 31 every five years thereafter. Transaction costs incurred in connection with the preferred share issue of $8 ($6 after-tax) were charged to surplus.

On March 4, 2010 the Company issued 6,000,000 Series M, 5.80% Non-Cumulative First Preferred Shares at $25 per share. The shares are redeemable at the option of the Company on or after March 31, 2015 for $25 per share plus a premium if redeemed prior to March 31, 2019, together in each case with all declared and unpaid dividends to but excluding the date of redemption. Transaction costs incurred in connection with the preferred share issue of $4 ($3 after-tax) were charged to surplus.

On March 31, 2010 the Company redeemed all of the remaining outstanding Series D First Preferred Shares at a redemption price of $25.25 per share. In connection with the transaction the Company recognized a charge of $4 in the Consolidated Statements of Earnings. As a result the Company no longer has any outstanding preferred shares classified as liabilities.

The Series J, 6.00% Non-Cumulative 5-Year Rate Reset First Preferred Shares are redeemable at the option of the Company on December 31, 2013 and on December 31 every five years thereafter for $25 per share plus all declared and unpaid dividends to the date fixed for redemption. Subject to the Company's right of redemption and certain other restrictions on conversion described in the Series J share conditions, each Series J share is convertible into one Series K First Preferred Share at the option of the holders on December 31, 2013 and on December 31 every five years thereafter.

The Series F, 5.90% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share plus a premium if the shares are redeemed before September 30, 2012. During 2011, the Company recognized the surrender of 153,825 Series F First Preferred Shares with a carrying value of $3.

The Series G, 5.20% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share plus a premium if the shares are redeemed before December 31, 2013.

The Series H, 4.85% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share plus a premium if the shares are redeemed before September 30, 2014.

The Series I, 4.50% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share plus a premium if the shares are redeemed before June 30, 2015.

The Series L, 5.65% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after December 31, 2014 for $25 per share plus a premium if the shares are redeemed before December 31, 2018.

Common Shares

On December 7, 2011, the Company announced a normal course issuer bid commencing December 9, 2011 and terminating December 8, 2012 to purchase for cancellation up to but not more than 6,000,000 common shares.

The common shares of the Company have no par value.

21. Capital Management

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.

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

In Canada, 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).

21. Capital Management (cont'd)

For Canadian regulatory reporting purposes, capital is defined by OSFI in its MCCSR guideline. The following table provides the MCCSR information and ratios for Great-West Life:

	2011	2010
Capital Available:		
Tier 1 Capital		
Common shares	**$ 6,426**	$ 6,426
Shareholder surplus	**5,638**	6,563
Innovative instruments	**769**	771
Other Tier 1 Capital Elements	**2,022**	609
Gross Tier 1 Capital	**14,855**	14,369
Deductions from Tier 1:		
Goodwill & intangible assets in excess of limit	**5,661**	5,699
Other deductions	**1,240**	1,211
Net Tier 1 Capital	**7,954**	7,459
Deductions/Adjustments to Net Tier 1 Capital	**(36)**	(37)
Adjusted Net Tier 1 Capital	**7,918**	7,422
Tier 2 Capital		
Tier 2A	**182**	77
Tier 2B allowed	**300**	300
Tier 2C	**1,252**	1,206
Tier 2 Deductions/Adjustments	**(36)**	(37)
Net Tier 2 Capital	**1,698**	1,546
Total Available Capital	**$ 9,616**	$ 8,968
Capital Required:		
Assets Default & market risk	**$ 1,815**	$ 1,679
Insurance Risks	**1,961**	1,877
Interest Rate Risks	**927**	851
Other	**6**	7
Total Capital Required	**$ 4,709**	$ 4,414
MCCSR ratios:		
Tier 1	**168%**	168%
Total	**204%**	203%

The result of adoption of IFRS as at January 1, 2011 is a reduction in Total Available Capital subject to phase-in of $636. This impact is to be phased-in over eight quarters beginning March 31, 2011 in accordance with the IFRS transition guidance outlined by OSFI.

At December 31, 2011, the Risk Based Capital ratio (RBC) of GWL&A, Lifeco's regulated U.S. operating company, is estimated to be 430% of the Company Action Level set by the National Association of Insurance Commissioners. GWL&A reports its RBC ratio annually to U.S. insurance regulators.

In the United Kingdom, Canada Life U.K. is required to satisfy the capital resources requirements set out in the Integrated Prudential Sourcebook, part of the Financial Services Authority Handbook. The capital requirements are set prescribed by a formulaic capital requirement (Pillar 1) and an individual capital adequacy framework which requires an entity to self-assess an appropriate amount of capital it should hold, based on the risks encountered from its business activities. At the end of 2011, Canada Life U.K. complied with the capital resource requirements in the United Kingdom.

As at December 31, 2011 and 2010 the Company maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations.

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

22. Share-Based Payments

(a) The Company has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Lifeco and its affiliates. The Company's Compensation Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted-average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee.

During 2011, 1,666,100 options were granted (988,000 options were granted during 2010). The weighted average fair value of options granted during 2011 was $4.39 per option. The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2011: dividend yield 4.55%, expected volatility 23.93%, risk-free interest rate 2.79%, and expected life of 7 years.

To date, four categories of options have been granted under the Plan. The exercise of the options in three of these four categories is subject to the attainment of certain financial targets of the Company. Options vest over a period of up to 8 years. All of the options have a maximum exercise period of ten years. The maximum number of Lifeco common shares that may be issued under the Plan is currently 52,600,000.

The following table summarizes the status of, and changes in, options outstanding and the weighted-average exercise price:

	2011		2010	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding, beginning of year	**13,577,642**	**$ 27.99**	16,082,494	$ 25.17
Granted	**1,666,100**	**27.07**	988,000	26.95
Exercised	**(1,305,746)**	**18.37**	(3,417,919)	14.32
Forfeited/expired	**(553,127)**	**33.47**	(74,933)	32.56
Outstanding, end of year	**13,384,869**	**$ 28.59**	13,577,642	$ 27.99
Options exercisable at end of year	**9,366,858**	**$ 27.98**	9,529,689	$ 26.41

Compensation expense due to transactions accounted for as equity-settled share-based payments of $6 after-tax in 2011 ($4 after-tax in 2010) arising from transactions in which the services received did not qualify for recognition as an asset, has been recognized in the Consolidated Statements of Earnings.

The entity measured the compensation for the Director's services based on fair market value when measuring the services received in the deferred share unit plan (DSPP/DSUP).

The following table summarizes information on the ranges of exercise prices including weighted-average remaining contractual life at December 31, 2011:

	Outstanding			Exercisable		
Exercise price ranges	Options	Weighted-average remaining contractual life	Weighted-average exercise price	Options	Weighted-average exercise price	Expiry
$17.14–$29.84	112,299	0.58	25.17	112,299	25.17	2012
$18.84–$37.22	2,366,060	1.51	21.25	2,336,060	21.25	2013
$24.17–$29.84	923,000	2.30	26.57	923,000	26.57	2014
$28.26–$29.84	1,893,000	3.95	29.82	1,843,000	29.82	2015
$27.16–$31.27	482,000	4.50	30.35	482,000	30.35	2016
$35.36–$37.22	1,432,800	5.19	37.11	606,736	37.06	2017
$25.64–$27.13	930,440	8.26	26.93	187,160	26.94	2020
$21.73–$27.16	1,532,000	9.17	27.06	–	–	2021

(b) The Company has both a voluntary Deferred Share Unit Plan and a mandatory Deferred Share Unit Plan (the "Voluntary DSU Plan" and the "Mandatory DSU Plan" respectively) for its Directors to promote a greater alignment of interests between the Directors and the shareholders of the Corporation. Under the Voluntary DSU Plan, each Director may elect to receive his or her annual retainer and attendance fees entirely in the form of Deferred Share Units, entirely in cash, or equally in cash and Deferred Share Units. Under the Mandatory DSU Plan, which was created as of April 29, 2004, each Director who is a resident of Canada or the United States receives $45,000 of his or her annual retainer in the form of Deferred Share Units. In both cases the number of Deferred Share Units granted is determined by dividing the amount of remuneration payable to the Director by the weighted average trading price per common share on the TSX for the last five trading days of the preceding fiscal quarter (such weighted average trading price being the "value of a Deferred Share Unit"). Directors receive additional Deferred Share Units in respect of dividends payable on the Common Shares based on the value of a Deferred Share Unit at that time. Deferred Share Units are redeemable at the time that an individual ceases to be a Director by a lump sum cash payment, based on the value of the Deferred Share Units on the date of redemption. This amount is fully taxable as income in the year in which it is received. In 2011, $1 in directors' fees were used to acquire Deferred Share Units.

(c) Effective September 25, 2007, Putnam LLC sponsored the Putnam Investments, LLC Equity Incentive Plan (the EIP). Under the terms of the EIP, Putnam LLC is authorized to grant or sell Class B Shares of Putnam LLC (the Putnam Class B Shares), subject to certain restrictions and to grant options to purchase Putnam Class B Shares (collectively, the Awards) to certain senior management and key employees of Putnam LLC at fair value at the time of the award. Fair value is determined under the valuation methodology outlined in the EIP. Awards vest over a period of up to five years and are specified in the individual's award letter. Holders of Putnam Class B Shares are not entitled to vote other than in respect of certain matters in regards to the EIP and have no rights to convert their shares into any other securities. The number of Putnam Class B Shares that may be subject to Awards under the EIP is limited to 10,000,000. The share-based payments awarded under the EIP are cash-settled and included within other liabilities on the Consolidated Balance Sheets.

The Company uses the fair-value based method to account for restricted Class B shares and options on Class B shares granted to employees under the EIP. The fair-value of restricted Class B shares and options on Class B shares is determined on each grant date. During 2011, Putnam LLC granted 1,189,169 (225,998 in 2010) restricted Class B common shares and no options in 2011 or 2010 to certain members of senior management and key employees.

Compensation expense recorded for the year ended December 31, 2011 related to restricted Class B common shares and Class B stock options earned was $3 ($43 in 2011) and is recorded in operating expenses on the Consolidated Statements of Earnings. At December 31, 2011, the carrying value and intrinsic value of the restricted Class B Share liability is $98.

(d) Certain employees of PanAgora, a subsidiary of Putnam LLC, are eligible to participate in the PanAgora Management Equity Plan (MEP) under which Class C Shares of PanAgora and options and stock appreciation rights on Class C Shares of PanAgora may be issued. Holders of PanAgora Class C Shares are not entitled to vote and have no rights to convert their shares into any other securities. The number of PanAgora Class C Shares may not exceed twenty percent of the equity of PanAgora on a fully exercised and converted basis.

Class C shares are treated as cash-settled liabilities on the Consolidated Balance Sheets within share-based compensation payable. The fair value of the shares is estimated quarterly and valued on an annual basis by an independent valuation expert.

Compensation expense recorded for the year ended December 31, 2011 related to restricted Class C Shares and stock appreciation rights was $7 in 2011 and 2010 respectively, and is included as a component of operating expenses in the Consolidated Statements of Earnings. At December 31, 2011, the carrying value and intrinsic value of the Class C Share and stock apprecation rights liability is $22.

23. Pension Plans and Other Post-Employment Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain 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. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the defined benefit obligation reflects pension benefits in accordance with the terms of the plans. The assets supporting the funded pension plans are held in separate trusteed pension funds. The obligations for the wholly unfunded plans are included in other liabilities and are supported by general assets. The recognized current cost of pension benefits is charged to operating expenses.

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

The Company's subsidiaries also provide post-employment health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. The amount of some of the post-employment benefits other than pensions depends on future cost escalation. These post-employment benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets. The recognized current cost of post-retirement non-pension benefits is charged to operating expenses.

Prior years' cumulative experience gains or losses in excess of the greater of 10% of the beginning of year fair value of plan assets and defined benefit obligation are amortized over the expected average remaining working lives of the employee/advisor group.

Subsidiaries of the Company have declared partial windups in respect of certain defined benefit pension plans, the impact of which has not been reflected in the pension plan accounts.

The overall expected rate of return on plan assets for the year is determined based on long-term market expectations prevailing at the beginning of the year for each asset class, weighted by portfolio allocation, less an allowance in respect of all expenses expected to be charged to the fund. Anticipated future long-term performance of individual asset categories is considered, reflecting management's best estimates of expected future inflation and expected real yields on fixed income securities and equities. Since the prior year end there have been no changes in the method used to determine the overall expected rate of return.

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. Mortality assumptions are significant in measuring the defined benefit obligation for defined benefit plans. The mortality assumptions applied by the Company take into consideration average life expectancy, including allowances for future mortality improvement as appropriate, and reflect variations in such factors as age, gender and geographic location. The assumptions also take into consideration an estimation of future improvements in longevity. This estimate is subject to considerable uncertainty and judgment is required in establishing this assumption.

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

The following tables reflect the financial position of the Company's contributory and non-contributory defined benefit plans at December 31, 2011 and 2010 and January 1, 2010:

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans			Other post-employment benefits		
	December 31 2011	December 31 2010	January 1 2010	**December 31 2011**	December 31 2010	January 1 2010
Change in Fair Value of Plan Assets						
Fair value of plan assets, beginning of period	**$ 3,122**	$ 2,934	$ 2,934	**$ –**	$ –	$ –
Expected return on plan assets	**191**	180	–	**–**	–	–
Employee contributions	**16**	16	–	**–**	–	–
Employer contributions	**94**	89	–	**17**	17	–
Actuarial gains (losses)	**(120)**	99	–	**–**	–	–
Benefits paid	**(179)**	(145)	–	**(17)**	(17)	–
Settlement	**–**	(2)	–	**–**	–	–
Foreign currency exchange rate changes	**13**	(49)	–	**–**	–	–
Fair value of plan assets, end of period	**$ 3,137**	$ 3,122	$ 2,934	**$ –**	$ –	$ –
Change in Defined Benefit Obligation						
Defined benefit obligation, beginning of period	**$ 3,192**	$ 2,832	$ 2,832	**$ 402**	$ 349	$ 349
Employer current service cost	**64**	49	–	**2**	2	–
Employee contributions	**16**	16	–	**–**	–	–
Interest on defined benefit obligation	**174**	171	–	**22**	21	–
Actuarial (gains) losses	**180**	329	–	**(3)**	48	–
Benefits paid	**(179)**	(145)	–	**(17)**	(17)	–
Past service cost	**2**	9	–	**–**	–	–
Settlements	**–**	(2)	–	**–**	–	–
Foreign currency exchange rate changes	**21**	(67)	–	**–**	(1)	–
Defined benefit obligation, end of period	**$ 3,470**	$ 3,192	$ 2,832	**$ 406**	$ 402	$ 349
Asset (Liability) recognized in the Consolidated Balance Sheets						
Funded status of plans – surplus (deficit)	**$ (333)**	$ (70)	$ 102	**$ (406)**	$ (402)	$ (349)
Unrecognized past service costs (credits)	**5**	5	–	**(26)**	(33)	(41)
Net actuarial (gains) losses	**512**	209	–	**43**	48	–
Unrecognized amount due to limit on asset	**(71)**	(63)	–	**–**	–	–
Asset (liability) recognized in the Consolidated Balance Sheets	**$ 113**	$ 81	$ 102	**$ (389)**	$ (387)	$ (390)
Recorded in:						
Other assets	**$ 420**	$ 314	$ 266	**$ –**	$ –	$ –
Other liabilities	**(307)**	(233)	(164)	**(389)**	(387)	(390)
Asset (liability) recognized in the Consolidated Balance Sheets	**$ 113**	$ 81	$ 102	**$ (389)**	$ (387)	$ (390)
Analysis of defined benefit obligation						
Wholly or partly funded plans	**$ 3,230**	$ 2,968	$ 2,641			
Wholly unfunded plans	**$ 240**	$ 224	$ 191	**$ 406**	$ 402	$ 349
Actual return on plan assets	**$ 71**	$ 279				

The Company expects to contribute $121 to its funded and unfunded defined benefit pension and other post-employment benefit plans in 2012.

23. Pension Plans and Other Post-Employment Benefits (cont'd)

(b) Pension and Other Post-Employment Benefits Expense Recognized in Profit or Loss

	All pension plans		Other post-employment benefits	
	2011	2010	**2011**	2010
Defined benefit current service cost	**$ 80**	$ 65	**$ 2**	$ 2
Defined contribution current service cost	**29**	29	**–**	–
Employee contributions	**(16)**	(16)	**–**	–
Employer current service cost	**93**	78	**2**	2
Past service costs recognized	**2**	4	**(7)**	(7)
Interest cost on defined benefit obligation	**174**	171	**22**	21
Actuarial (gain) loss recognized	**(1)**	20	**1**	–
Expected return on plan assets	**(191)**	(180)	**–**	–
Amount recognized due to limit on asset	**8**	(14)	**–**	–
Pension and other post-employment benefits expense recognized	**$ 85**	$ 79	**$ 18**	$ 16

(c) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans		
	December 31 2011	December 31 2010	January 1 2010
Equity securities	**46%**	50%	50%
Debt securities	**41%**	37%	38%
Real estate	**4%**	4%	4%
Cash and cash equivalents	**9%**	9%	8%
	100%	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Plan assets include investments in segregated funds managed by subsidiaries of the Company in the Consolidated Balance Sheets of $1,430 ($1,438 in 2010). Plan assets do not include any property occupied or other assets used by the Company.

(d) Principal Actuarial Assumptions Used at the Balance Sheets Date

	Defined benefit pension plans		Other post-employment benefits	
	2011	2010	**2011**	2010
To determine benefit cost:				
Discount rate	**5.5%**	6.2%	**5.5%**	6.3%
Expected rate of return on plan assets, during the year	**6.1%**	6.3%	**–**	–
Expected rate of compensation increase	**3.6%**	3.9%	**–**	–
Future pension increases	**2.2%**	2.4%	**–**	–
To determine defined benefit obligation (DBO):				
Discount rate	**5.1%**	5.5%	**5.1%**	5.5%
Rate of compensation increase	**3.5%**	3.6%	**–**	–
Future pension increases	**2.0%**	2.2%	**–**	–
% of DBO subject to future pension increases	**39.0%**	41.0%	**–**	–
Medical cost trend rates:				
Initial medical cost trend rate			**6.7%**	7.0%
Ultimate medical cost trend rate			**4.5%**	4.5%
Year ultimate trend rate is reached			**2024**	2024

(e) Impact of Changes to Assumed Medical Cost Trend Rates – Other Post – Employment Benefits

	1% increase		1% decrease	
	2011	2010	**2011**	2010
Impact on defined benefit obligation	**$ 41**	$ 40	**$ (34)**	$ (34)
Impact on current service cost and interest cost	**$ 2**	$ 2	**$ (2)**	$ (2)

(f) Amounts for the current and previous annual periods are as follows:

	2011	2010
Defined benefit pension plans:		
Defined benefit obligation	**$ (3,470)**	$ (3,192)
Fair value of plan assets	**3,137**	3,122
Funded status of plans – surplus (deficit)	**(333)**	(70)
Experience adjustments on plan liabilities	**(180)**	(329)
Experience adjustments on plan assets	**(120)**	99
Other post-employment benefits:		
Defined benefit obligation	**(406)**	(402)
Experience adjustments on plan liabilities	**3**	(48)

24. Earnings per Common Share

The following table provides the reconciliation between basic and diluted earnings per common share:

	2011	2010
Earnings		
Net earnings	**$ 2,118**	$ 1,701
Perpetual preferred share dividends	**(96)**	(86)
Net earnings – common shareholders	**2,022**	1,615
Capital trust securities	**10**	10
Net earnings – common shareholders – diluted basis	**$ 2,032**	$ 1,625
Number of common shares		
Average number of common shares outstanding	**949,323,824**	947,487,233
Add:		
– Capital trust units	**12,408,059**	9,516,867
– Potential exercise of outstanding stock options	**337,446**	1,163,319
Average number of common shares outstanding – diluted basis	**962,069,329**	958,167,419
Basic earnings per common share	**$ 2.129**	$ 1.704
Diluted earnings per common share	**$ 2.112**	$ 1.695
Dividends per common share	**$ 1.230**	$ 1.230

25. Accumulated Other Comprehensive Income (Loss)

	2011					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	**Unrealized gains (losses) on available for sale assets**	**Unrealized gains (losses) on cash flow hedges**	**Total**	**Non-controlling interest**	**Shareholder**
Balance, beginning of year	**$ (572)**	**$ 129**	**$ –**	**$ (443)**	**$ (16)**	**$ (459)**
Other comprehensive income (loss)	**206**	**114**	**(22)**	**298**	**(84)**	**214**
Income tax	**1**	**(20)**	**9**	**(10)**	**22**	**12**
	207	**94**	**(13)**	**288**	**(62)**	**226**
Balance, end of year	**$ (365)**	**$ 223**	**$ (13)**	**$ (155)**	**$ (78)**	**$ (233)**

	2010					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available for sale assets	Unrealized gains (losses) on cash flow hedges	Total	Non-controlling interest	Shareholder
Balance, beginning of year	$ –	$ 78	$ (51)	$ 27	$ (8)	$ 19
Other comprehensive income (loss)	(572)	78	79	(415)	(14)	(429)
Income tax	–	(27)	(28)	(55)	6	(49)
	(572)	51	51	(470)	(8)	(478)
Balance, end of year	$ (572)	$ 129	$ –	$ (443)	$ (16)	$ (459)

26. Related Party Transactions

Power Financial Corporation, which is incorporated and domiciled in Canada, is the Company's parent and has voting control of the Company.

(a) Principal subsidiaries

The financial statements of the Company include the operations of the following subsidiaries:

Company	Incorporated in	Primary business operation	% Held
The Great-West Life Assurance Company	Canada	Insurance and wealth management	100.00%
London Life Insurance Company	Canada	Insurance and wealth management	100.00%
The Canada Life Assurance Company	Canada	Insurance and wealth management	100.00%
Great-West Life & Annuity Insurance Company	United States	Insurance and wealth management	100.00%
Putnam Investments LLC	United States	Financial services	97.58%

(b) Transactions with related parties included in the consolidated financial statements

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

During the year, Great-West Life provided to and received from IGM and its subsidiaries, 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. All transactions were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2011 the Company held $39 ($47 in 2010) of debentures issued by IGM which mature as follows:

	2011	2010
6.75%, matured May 9, 2011	$ –	$ 10
6.65%, matures December 13, 2027	15	14
7.45%, matures May 9, 2031	12	12
7.00%, matures December 31, 2032	12	11
	$ 39	$ 47

During 2011, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $202 from IGM ($226 in 2010).

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 2011 or 2010. There were no provisions for uncollectible amounts from related parties during 2011 and 2010.

(c) Key management compensation

Key management personnel constitutes those individuals that have the authority and responsibility for planning, directing and controlling the activities of Lifeco, directly or indirectly, including any Director. The individuals that comprise the key management personnel are the Board of Directors as well as certain key management and officers.

The following table describes all compensation paid to, awarded to, or earned by each of the key management personnel in 2011 for services rendered in all capacities to the Company and its subsidiaries:

	2011	2010
Salary	$ 12	$ 12
Share based awards	3	1
Option based awards	1	–
Annual non-equity incentive plan compensation	15	18
Pension value	4	10
	$ 35	$ 41

27. Income Tax

(a) Income tax receivable (payable)

	2011	2010
Balance, beginning of year	$ 212	$ 414
Current tax expense	(267)	(193)
Recorded in OCI	(27)	(13)
Payments made on account (refunds received)	(303)	(64)
Other	88	68
Balance, end of year	$ (297)	$ 212

27. Income Tax (cont'd)

(b) Deferred income taxes consist of the following losses carried forward and taxable temporary differences:

	2011	2010
Insurance and investment contract liabilities	**$ (321)**	$ (475)
Portfolio assets	**(788)**	(540)
Losses carried forward	**980**	876
Intangible assets	**296**	345
Other	**44**	181
Net deferred income tax asset (liability)	**$ 211**	$ 387

	2011	2010
Balance, beginning of year	**$ 387**	$ 572
Amounts recorded in:		
Statements of net earnings	**(198)**	(63)
Statement of other comprehensive income	**17**	(42)
Statement of changes in equity	**–**	3
Insurance and investment contract liabilities	**(2)**	(45)
Foreign exchange rate changes	**7**	(38)
Balance, end of year	**$ 211**	$ 387

A deferred tax asset is recognized for a tax loss carryforward only to the extent that realization of the related tax benefit through the future taxable profits is more likely than not.

Recognition is based on the fact that it is more likely than not that the entity will have taxable profits and/or can utilize tax planning opportunities before expiration of the deferred tax assets. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets.

Management assesses the recoverability of the deferred tax asset carrying values based on future years taxable income projections and believes the carrying values of the deferred tax assets as of December 31, 2011 are recoverable.

At December 31, 2011, the Company had tax loss carryforwards, totaling $3,013 ($3,776 in 2010). Of this amount, $2,788 expire between 2011 and 2031, while $225 have no expiry date. The Company will realize this benefit in future years through a reduction in current income taxes payable.

A deferred tax liability has not been recognized in respect of the investment in subsidiaries, branches and associates as the Company is able to control the timing, which is not probable in the foreseeable future, of the reversal of the temporary difference.

One of the Company's subsidiaries has had a history of recent losses. The subsidiary has a deferred tax asset balance of $1,078 (US$1,057) as at December 31, 2011 comprised principally of net operating losses and future deductions related to goodwill which has been previously impaired for book accounting purposes. Management has concluded that it is more likely than not that the subsidiary and other historically profitable subsidiaries with which it files a consolidated United States income tax return will generate sufficient taxable income against which the unused United States losses and deductions will be utilized. The future taxable income is derived principally from tax planning strategies, some of which have already been executed. Certain state net operating losses in the amount of $17 (US$17) which were incurred before 2010 have been excluded from the deferred tax assets.

(c) Income tax expense for the year comprises current and deferred tax:

(i) Current income tax

	2011	2010
Current tax expense	**$ 246**	$ 181
Previously unrecognized tax loss; tax credit or temporary difference of prior period	**5**	(4)
Other	**16**	16
Total current income tax	**$ 267**	$ 193

(ii) Deferred income tax

	2011	2010
Origination and reversal of temporary difference	$ 220	$ 107
Changes in tax rates or imposition of new taxes	(7)	(6)
Write-down or reversal of previous write-down of deferred tax assets	1	(97)
Previously unrecognized tax loss; tax credit or temporary difference of prior period	(7)	(3)
Other	(9)	62
Total deferred income tax	$ 198	$ 63
Total income tax expense	$ 465	$ 256

(iii) Tax recorded in other comprehensive income (see note 25)

	2011	2010
Current tax	$ 27	$ 13
Deferred tax	(17)	42
	$ 10	$ 55

(iv) Tax recorded in equity

	2011	2010
Current tax	$ –	$ –
Deferred tax	–	(3)
	$ –	$ (3)

(d) The Company's effective income tax rate is derived as follows:

	2011		2010	
Combined basic Canadian federal and provincial tax rate	$ 757	28.0%	$ 599	30.5%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	(123)	(4.6)	(111)	(5.6)
Lower effective income tax rates on income not subject to tax in Canada	(89)	(3.3)	(64)	(3.3)
Other	(73)	(2.6)	(161)	(8.2)
Impact of rate changes on future income taxes	(7)	(0.3)	(7)	(0.4)
Effective income tax rate applicable to current year	$ 465	17.2%	$ 256	13.0%

There are no income tax consequences attaching to the payment of dividends by the company to its shareholders.

28. Operating and Administrative Expenses

	2011	2010
Salaries and other employee benefits	$ 1,698	$ 1,723
Amortization of fixed assets	43	43
Other	209	1,035
	$ 1,950	$ 2,801

29. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 7 illustrates the credit quality of the Company's exposure to counterparties. As at December 31, 2011, the Company received assets of $21 ($24 in 2010) as collateral for derivative contracts from counterparties and pledged assets of $45 ($39 in 2010) as collateral for derivative contracts to counterparties.

29. Derivative Financial Instruments (cont'd)

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

	2011				
	Notional amount	**Maximum credit risk***	**Future credit exposure**	**Credit risk equivalent**	**Risk weighted equivalent**
Interest rate contracts					
Futures – long	**$ 55**	**$ –**	**$ –**	**$ –**	**$ –**
Futures – short	**5**	**–**	**–**	**–**	**–**
Swaps	**2,649**	**357**	**23**	**370**	**38**
Options purchased	**1,107**	**54**	**7**	**54**	**5**
	3,816	**411**	**30**	**424**	**43**
Foreign exchange contracts					
Forward contracts	**224**	**–**	**3**	**3**	**–**
Cross-currency swaps	**7,745**	**557**	**540**	**1,093**	**73**
	7,969	**557**	**543**	**1,096**	**73**
Other derivative contracts					
Equity contracts	**58**	**–**	**4**	**4**	**–**
Futures – long	**7**	**–**	**–**	**–**	**–**
Futures – short	**148**	**–**	**–**	**–**	**–**
	213	**–**	**4**	**4**	**–**
	$ 11,998	**$ 968**	**$ 577**	**$ 1,524**	**$ 116**

* Credit risk equivalent amounts are presented net of collateral received ($21).

	2010				
	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 58	$ –	$ –	$ –	$ –
Futures – short	220	–	–	–	–
Swaps	2,136	221	18	223	22
Options purchased	1,293	31	7	31	2
	3,707	252	25	254	24
Foreign exchange contracts					
Forward contracts	86	1	1	2	–
Cross-currency swaps	7,308	731	512	1,242	77
	7,394	732	513	1,244	77
Other derivative contracts					
Equity contracts	64	–	4	4	–
Futures – long	8	–	–	–	–
Futures – short	38	–	–	–	–
	110	–	4	4	–
	$ 11,211	$ 984	$ 542	$ 1,502	$ 101

* Credit risk equivalent amounts are presented net of collateral received ($24).

The following has been disclosed in the tables above, as prescribed by OSFI:

Maximum Credit Risk	The total replacement cost of all derivative contracts with positive values.
Future Credit Risk	The potential future credit exposure is calculated based on a formula prescribed by OSFI. The factors prescribed by OSFI for this calculation are based on derivative type and duration.
Credit Risk Equivalent	The sum of Maximum Credit Risk and the potential Future Credit Exposure less any collateral held.
Risk Weighted Equivalent	Represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

(b) The following table provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

	2011				
	Notional Amount				Total estimated market value
	1 year or less	1–5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ –	$ 55	$ –	$ 55	$ –
Futures – short	–	5	–	5	–
Swaps	404	1,025	1,087	2,516	316
Options purchased	–	968	139	1,107	53
	404	2,053	1,226	3,683	369
Foreign exchange contracts					
Forward contracts	224	–	–	224	(1)
Cross-currency swaps	43	1,509	4,693	6,245	314
	267	1,509	4,693	6,469	313
Other derivative contracts					
Equity contracts	40	18	–	58	(16)
Futures – long	7	–	–	7	–
Futures – short	146	2	–	148	(1)
	193	20	–	213	(17)
	864	3,582	5,919	10,365	665
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	31	31	11
Foreign exchange contracts					
Cross-currency swaps	–	–	1,500	1,500	(22)
	–	–	1,531	1,531	(11)
Fair value hedges					
Interest rate contracts					
Swaps	–	10	92	102	(2)
Total	$ 864	$ 3,592	$ 7,542	$ 11,998	$ 652

	2010				
	Notional Amount				Total estimated market value
	1 year or less	1–5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 57	$ 1	$ –	$ 58	$ –
Futures – short	165	–	–	165	–
Swaps	419	797	862	2,078	191
Options purchased	226	846	221	1,293	31
	867	1,644	1,083	3,594	222
Foreign exchange contracts					
Forward contracts	86	–	–	86	1
Cross-currency swaps	70	1,284	4,454	5,808	589
	156	1,284	4,454	5,894	590
Other derivative contracts					
Equity contracts	43	21	–	64	(20)
Futures – long	8	–	–	8	–
Futures – short	38	–	–	38	–
	89	21	–	110	(20)
	1,112	2,949	5,537	9,598	792
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	58	58	12
	–	–	58	58	12
Foreign exchange contracts					
Cross-currency swaps	–	–	1,500	1,500	15
	–	–	1,558	1,558	27
Fair value hedges					
Interest rate contracts					
Futures – short	55	–	–	55	–
Total	$ 1,167	$ 2,949	$ 7,095	$ 11,211	$ 819

Futures contracts included in the above table are exchange traded contracts; all other contracts are over-the-counter.

29. Derivative Financial Instruments (cont'd)

(c) Interest Rate Contracts

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with investment activities and insurance and investment contract liabilities. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Call options grant the Company the right to enter into a swap with predetermined fixed-rate payments over a predetermined time period on the exercise date. Call options are used to manage the variability in future interest payments due to a change in credited interest rates and the related potential change in cash flows due to surrenders. Call options are also used to hedge minimum rate guarantees.

Foreign Exchange Contracts

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

The ineffective portion of the cash flow hedges during 2011 and the anticipated net gains (losses) reclassified out of AOCI within the next twelve months is $2. The maximum time frame for which variable cash flows are hedged is 33 years.

Other Derivative Contracts

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. The Company may use credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio.

30. Legal Provisions, Contingent Liabilities and Subsequent Event

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

A subsidiary of the Company has declared a partial windup in respect of an Ontario defined benefit pension plan which will not likely be completed for some time. The partial windup could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound up portion of the plans. In addition to the regulatory proceedings involving this partial windup, a related class action proceeding has been commenced in Ontario related to the partial windup and three potential partial windups under the plan. The class action also challenges the validity of charging expenses to the plan. The provisions for certain Canadian retirement plans in the amounts of $97 after tax established by the Company's subsidiaries in the third quarter, 2007 have been reduced to $68. Actual results could differ from these estimates.

The Court of Appeal for Ontario released a decision on November 3, 2011 in regard to the involvement of the participating accounts of Lifeco subsidiaries London Life and Great-West Life in the financing of the acquisition of London Insurance Group Inc. (LIG) in 1997 (the "Appeal Decision").

The Appeal Decision made substantial adjustments to the original trial judgment (the "Trial Decision"). The impact is expected to be favourable to the Company's overall financial position. Any monies to be returned to the participating accounts will be dealt with in accordance with the companies' participating policyholder dividend policies in the ordinary course of business. No awards are to be paid out to individual class members.

During the fourth quarter of 2011, in response to the Appeal Decision, the Company re-evaluated and reduced the litigation provision established in the third quarter of 2010, which positively impacted common shareholder net earnings by $223 after-tax.

Regardless of the ultimate outcome of this case, all of the participating policy contract terms and conditions will continue to be honoured.

Based on information presently known, the Trial Decision, if affirmed on further appeal, is not expected to have a material adverse effect on the consolidated financial position of the Company.

Subsidiaries of the Company have an investment in a USA based private equity partnership wherein a dispute arose over the terms of the partnership agreement. The Company acquired the investment in 2007 for purchase consideration of U.S. $350. The dispute was resolved on January 10, 2012 and the Company has established a provision for $99 after-tax.

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

Subsequent Event

On January 3, 2012 the plaintiffs filed an application in the Supreme Court of Canada for leave to appeal the Appeal Decision.

31. Commitments

(a) Syndicated Letters of Credit

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

LRG has a syndicated letter of credit facility providing US$650 in letters of credit capacity. The facility was arranged in 2010 for a five year term expiring November 12, 2015. Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs. LRG has issued US$479 in letters of credit under the facility as at December 31, 2011 (US$507 at December 31, 2010).

In addition, LRG has other bilateral letter of credit facilities totaling US$18 (US$18 in 2010). LRG has issued US$7 in letters of credit under these facilities as at December 31, 2011 (US$6 at December 31, 2010).

(b) Other Letters of Credit

Canada Life issues letters of credit in the normal course of business. Letters of credit in the amount of $1 were outstanding at December 31, 2011 ($1 at December 31, 2010), none of which have been drawn upon at that date.

(c) Lease Obligations

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

	2012	2013	2014	2015	2016	2017 and thereafter	Total
Future lease payments	$ 101	83	69	58	46	86	$ 443

32. Segmented Information

The major reportable segments of the Company are Canada, United States, Europe and Lifeco Corporate. These segments reflect the Company's management structure and internal financial reporting and are aligned to its geographic operations. Each of these segments operates in the financial services industry and the revenues from these segments are derived principally from life, health and disability insurance, annuity products, investment management services, savings products and life, property and casualty, accident and health reinsurance. Business activities that are not associated with the specific business units are attributed to the Lifeco Corporate segment.

Transactions between operating segments occur at market terms and conditions and have been eliminated upon consolidation.

During the year, the Company established a capital allocation model to better measure the performance of the operating segments. The segmented information below including the comparative figures reflects the impact of the capital allocation model implemented.

(a) Consolidated Operations

	2011				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 9,285	$ 3,126	$ 4,882	$ –	$ 17,293
Net investment income					
Regular net investment income	2,470	1,311	1,891	(134)	5,538
Changes in fair value through profit or loss	1,853	454	1,857	–	4,164
Total net investment income	4,323	1,765	3,748	(134)	9,702
Fee and other income	1,088	1,232	583	–	2,903
Total income	14,696	6,123	9,213	(134)	29,898
Benefits and expenses:					
Paid or credited to policyholders	10,971	4,229	7,843	–	23,043
Other	2,207	1,240	586	(271)	3,762
Financing charges	136	134	18	1	289
Amortization of finite life intangible assets	41	46	13	–	100
Earnings before income taxes	1,341	474	753	136	2,704
Income taxes	252	98	96	19	465
Net earnings before non-controlling interests	1,089	376	657	117	2,239
Non-controlling interests	108	(1)	14	–	121
Net earnings	981	377	643	117	2,118
Perpetual preferred share dividends	73	–	23	–	96
Net earnings before capital allocation	908	377	620	117	2,022
Impact of capital allocation	78	(7)	(58)	(13)	–
Net earnings – common shareholders	$ 986	$ 370	$ 562	$ 104	$ 2,022

32. Segmented Information (cont'd)

	2010				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 9,220	$ 3,216	$ 5,312	$ –	$ 17,748
Net investment income					
Regular net investment income	2,481	1,326	1,892	10	5,709
Changes in fair value through profit or loss	1,624	734	1,467	–	3,825
Total net investment income	4,105	2,060	3,359	10	9,534
Fee and other income	1,025	1,246	550	–	2,821
Total income	14,350	6,522	9,221	10	30,103
Benefits and expenses:					
Paid or credited to policyholders	10,669	4,625	7,931	–	23,225
Other	2,361	1,360	536	277	4,534
Financing charges	135	138	14	1	288
Amortization of finite life intangible assets	40	45	7	–	92
Earnings before income taxes	1,145	354	733	(268)	1,964
Income taxes	193	22	104	(63)	256
Net earnings before non-controlling interests	952	332	629	(205)	1,708
Non-controlling interests	(9)	4	12	–	7
Net earnings	961	328	617	(205)	1,701
Perpetual preferred share dividends	72	–	14	–	86
Net earnings before capital allocation	889	328	603	(205)	1,615
Impact of capital allocation	86	(2)	(71)	(13)	–
Net earnings – common shareholders	$ 975	$ 326	$ 532	$ (218)	$ 1,615

(b) Consolidated Total Assets

	December 31, 2011			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	**$ 56,374**	**$ 27,403**	**$ 30,851**	**$ 114,628**
Goodwill and indefinite life intangible assets	**5,089**	**1,769**	**1,697**	**8,555**
Segregated funds for the risk of unitholders	**49,622**	**22,359**	**24,601**	**96,582**
Other assets	**3,453**	**3,050**	**12,500**	**19,003**
Total assets	**$ 114,538**	**$ 54,581**	**$ 69,649**	**$ 238,768**

	December 31, 2010			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 52,378	$ 25,714	$ 28,550	$ 106,642
Goodwill and indefinite life intangible assets	5,086	1,717	1,702	8,505
Segregated funds for the risk of unitholders	50,001	21,189	23,637	94,827
Other assets	4,532	2,929	11,986	19,447
Total assets	$ 111,997	$ 51,549	$ 65,875	$ 229,421

	January 1, 2010			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 48,513	$ 24,632	$ 29,125	$ 102,270
Goodwill and indefinite life intangible assets	5,093	1,721	1,830	8,644
Segregated funds for the risk of unitholders	45,006	22,799	19,690	87,495
Other assets	3,620	13,888	3,227	20,735
Total assets	$ 102,232	$ 63,040	$ 53,872	$ 219,144

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Great-West Lifeco Inc.

We have audited the accompanying consolidated financial statements of Great-West Lifeco Inc., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Great-West Lifeco Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
February 9, 2012

SOURCES OF EARNINGS

The following is provided in accordance with the OSFI guideline requiring Sources of Earnings (SOE) disclosure. SOE is not an International Financial Reporting Standards (IFRS) measure. There is no standard SOE methodology. The calculation of SOE is dependent on, and sensitive to, the methodology, estimates and assumptions used.

SOE identifies various sources of IFRS net earnings. It provides an analysis of the difference between actual net earnings and expected net earnings based on assumptions made at the beginning of the reporting period. The terminology used in the discussion of sources of earnings is described below:

Expected Profit on In-Force Business

This component represents the portion of the consolidated net income on business in-force at the start of the reporting period that was expected to be realized based on the achievement of the best-estimate assumptions. It includes releases of provisions for adverse deviations, expected net earnings on deposits, and expected net management fees.

Impact of New Business

This component represents the point-of-sale impact on net income of writing new business during the reporting period. This is the difference between the premium received and the sum of the expenses incurred as a result of the sale and the new liabilities established at the point of sale.

Experience Gains and Losses

This component represents gains and losses that are due to differences between the actual experience during the reporting period and the best-estimate assumptions at the start of the reporting period.

Management Actions and Changes in Assumptions

This component represents the impact on net income resulting from management actions, changes in actuarial assumptions or methodology, changes in margins for adverse deviations, and correction of errors.

Other

This component represents the amounts not included in any other line of the sources of earnings.

Earnings on Surplus

This component represents the earnings on the Company's surplus funds.

Great-West Lifeco's sources of earnings are shown below for 2011 and 2010.

Sources of Earnings

(in Canadian $ millions)

	Shareholder net earnings				
For the year ended December 31, 2011	**Canada**	**United States**	**Europe**	**Lifeco Corporate**	**Total**
Expected profit on in-force business	$ 1,067	$ 342	$ 485	$ (21)	$ 1,873
Impact of new business	1	0	(9)	0	(8)
Experience gains and losses	(5)	(12)	(79)	1	(95)
Management actions and changes in assumptions	136	52	164	0	352
Other	0	0	0	0	0
Earnings on surplus	90	114	120	1	325
Net earnings before tax	1,289	496	681	(19)	2,447
Taxes	(230)	(141)	(96)	(1)	(468)
Net earnings before non-controlling interests	1,059	355	585	(20)	1,979
Non-controlling interests	0	0	0	0	0
Net earnings – shareholders	1,059	355	585	(20)	1,979
Perpetual Preferred share dividends	(73)	0	(23)	0	(96)
Net earnings – common shareholders before adjustments	986	355	562	(20)	1,883
Putnam after tax	0	15	0	0	15
Adjustments after tax	0	0	0	124	124
Net earnings – common shareholders	$ 986	$ 370	$ 562	$ 104	$ 2,022

Sources of Earnings

(in Canadian $ millions)

For the year ended December 31, 2010	Shareholder net earnings Canada	United States	Europe	Lifeco Corporate	Total
Expected profit on in-force business	$ 1,025	$ 292	$ 507	$ (19)	$ 1,805
Impact of new business	6	0	(14)	0	(8)
Experience gains and losses	74	49	(46)	17	94
Management actions and changes in assumptions	254	55	110	0	419
Other	0	0	0	0	0
Earnings on surplus	44	61	93	(4)	194
Net earnings before tax	1,403	457	650	(6)	2,504
Taxes	(342)	(90)	(104)	(8)	(544)
Net earnings before non-controlling interests	1,061	367	546	(14)	1,960
Non-controlling interests	(14)	0	0	0	(14)
Net earnings – shareholders	1,047	367	546	(14)	1,946
Perpetual Preferred share dividends	(72)	0	(14)	0	(86)
Net earnings – common shareholders before adjustments	975	367	532	(14)	1,860
Putnam after tax	0	(41)	0	0	(41)
Adjustments after tax	0	0	0	(204)	(204)
Net earnings – common shareholders	$ 975	$ 326	$ 532	$ (218)	$ 1,615

Analysis of Results

Expected profit on in-force business is the major driver of earnings and accounted for 77% of pre-tax earnings in 2011. The expected profit on in-force business of $1,873 in 2011 was $68 higher than the 2010 level. A significant contributor to the increase in expected profits year over year was the impact of equity markets going into the year and business growth in Canada and U.S. offset by decreases in expected profits due to the timing of sales and maturities of some shorter term accumulation products in Europe.

New business issued in 2011 led to a loss of $8 at issue which was the same in 2010, largely due to reduced strain on retirement products in Canada and new business in Reinsurance largely offset by increased strain on insurance sales in Canada.

Experience losses in 2011 were primarily due to unfavourable expense, morbidity and policyholder behavior experience partially offset by favourable mortality and investment experience. Experience gains in 2010 were primarily due to favourable investment experience in Canada and U.S., and favourable mortality experience. Experience losses of $95 in 2011 were $189 lower than in 2010 primarily due to unfavourable morbidity and policyholder behavior experience partially offset by favourable investment experience.

In 2011 the Company adopted the revised Actuarial Standards of Practice for subsection 2350 relating to the future mortality improvement in insurance contract liabilities for life insurance and annuities. The resulting increase to pre-tax earnings was $425 including $182 for life insurance and a decrease to earnings of $(53) for annuities in Canada; an increase of $242 for life insurance and $58 for annuities in Europe; an increase to earnings of $48 for life insurance and a decrease of $(52) for annuities in the U.S.

Other management actions and changes in assumptions contributed $(73) to pre-tax earnings, including $7 in Canada, $(136) in Europe and $56 in U.S. The most significant contributors to the Canada amount were $137 due to updated expenses and taxes, $101 updated morbidity assumptions, $38 updated base life insurance mortality, $40 due to model refinements across the Canadian segment and $12 due to reinsurance related management actions, $(172) due to increased provisions for policyholder behavior in Individual Insurance, $(104) due to increased provisions for asset liability matching, and $(43) due to updated base annuity mortality. The most significant contributors to the Europe amount were $101 due to model refinements, particularly in Reinsurance, $42 due to updated base annuity mortality, $16 due to reduced provisions for asset liability matching, $(227) due to increased provisions for policyholder behavior in reinsurance, $(50) due to updated base life insurance mortality and $(15) due to updated morbidity assumptions. The most significant contributors to the U.S. amount were $28 due to updated base annuity mortality and $23 due to updated base life insurance mortality.

In 2010 management actions and changes in assumptions contributed to $419 pre-tax earnings, including $(3) due to the shareholder portion of assumption changes in the participating lines and $423 due to assumption changes and management actions for life insurance contracts. The assumption changes and management actions consisted of $123 in Europe, $55 in U.S. and $246 in Canada. The most significant contributors to the Canada amount were $86 due to updated expenses and taxes in individual insurance, $64 due to improved individual life mortality, $62 due to improved group insurance morbidity, $56 due to model refinements across the Canadian segment, $49 due to reduced provisions for asset liability matching, and $(69) due to increased provisions for policyholder behaviour in individual insurance. The most significant contributors to the Europe amount were $120 due to reduced provisions for asset liability matching, $97 due to model refinements across the division, $25 for updated expenses, $(71) due to strengthened reinsurance life mortality, $(16) due to strengthened longevity, $(13) due to strengthened group insurance morbidity, $(10) due to increased provisions for policyholder behaviour and $(8) due to asset default. The most significant contributors to the U.S. amount were $52 due to improved life mortality, $6 due to improved longevity, $4 due to model refinements, $(8) due to increased provisions for policyholder behaviour.

Earnings on surplus increased by $131 in 2011 compared to 2010.

FIVE YEAR SUMMARY

(in Canadian $ millions except per share amounts)	**2011**	2010	*2009	*2008	*2007
At December 31					
Total assets under administration	**$ 501,965**	$ 487,002	$ 458,575	$ 441,959	$ 496,163
For the Year Ended December 31					
Premiums and deposits:					
Life insurance, guaranteed annuities and insured health products	**$ 17,293**	$ 17,748	$ 18,033	$ 30,007	$ 18,753
Self-funded premium equivalents (ASO contracts)	**2,645**	2,575	2,499	2,410	2,233
Segregated funds deposits:					
Individual products	**7,345**	7,284	6,229	7,825	9,183
Group products	**6,117**	6,790	8,470	5,524	5,788
Proprietary mutual funds and institutional deposits	**28,888**	24,654	21,507	30,693	11,183
Total premiums and deposits	**$ 62,288**	$ 59,051	$ 56,738	$ 76,459	$ 47,140
Condensed Summary of Operations					
Income					
Premium income	**$ 17,293**	$ 17,748	$ 18,033	$ 30,007	$ 18,753
Net investment income					
Regular net investment income	**5,538**	5,709	6,179	5,962	5,565
Changes in fair value through profit or loss	**4,164**	3,825	3,490	(5,161)	(1,098)
Total net investment income	**9,702**	9,534	9,669	801	4,467
Fee and other income	**2,903**	2,821	2,839	3,124	2,703
Total income	**29,898**	30,103	30,541	33,932	25,923
Benefits and expenses					
Paid or credited to policyholders	**23,043**	23,225	23,809	26,774	19,122
Other	**4,051**	4,822	4,563	4,452	4,120
Amortization of finite life intangible assets	**100**	92	89	83	32
Restructuring costs	**–**	–	–	70	–
Intangible and goodwill impairment	**–**	–	–	2,178	–
Earnings from continuing operations before income taxes	**2,704**	1,964	2,080	375	2,649
Income taxes	**465**	256	345	(278)	582
Net earnings from continuing operations before non-controlling interests	**2,239**	1,708	1,735	653	2,067
Non-controlling interests	**121**	7	36	(108)	159
Net earnings from continuing operations	**2,118**	1,701	1,699	761	1,908
Net earnings from discontinued operations	**–**	–	–	692	203
Net earnings – shareholders	**2,118**	1,701	1,699	1,453	2,111
Perpetual preferred share dividends	**96**	86	72	57	55
Net earnings – common shareholders	**$ 2,022**	$ 1,615	$ 1,627	$ 1,396	$ 2,056
Earnings per common share	**$ 2.129**	$ 1.704	$ 1.722	$ 1.560	$ 2.304
Return on common shareholders' equity	**17.6%**	14.8%	13.8%	12.7%	20.7%
Book value per common share	**$ 12.61**	$ 11.46	$ 12.17	$ 12.61	$ 10.98
Dividends to common shareholders – per share	**$ 1.2300**	$ 1.2300	$ 1.2300	$ 1.2000	$ 1.0600

* The years 2007, 2008 and 2009 are presented on a previous CGAAP basis.

DIRECTORS AND OFFICERS

As of January 1, 2012

BOARD OF DIRECTORS

Raymond L. McFeetors [2, 3, 4]
Chairman of the Board of the Corporation
Vice-Chairman,
Power Financial Corporation

George S. Bain [1]
Corporate Director

Marcel R. Coutu [2, 3, 4]
President and Chief Executive Officer,
Canadian Oil Sands Limited

André Desmarais, O.C., O.Q. [2, 3, 4]
Deputy Chairman, President and
Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

Paul Desmarais, Jr., O.C., O.Q. [2, 3, 4]
Chairman and Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

H. David Graves [2, 5]
Chairman and Chief Executive Officer,
IMRIS Inc.

Michael L. Hepher [1, 2, 3]
Corporate Director

Chaviva M. Hošek, O.C., Ph.D., LL.D. [1, 5]
President and Chief Executive Officer,
The Canadian Institute for Advanced Research

D. Allen Loney, FIA, FCIA [3]
President and Chief Executive Officer
of the Corporation,
The Great-West Life Assurance Company,
London Life Insurance Company,
Canada Life Financial Corporation,
The Canada Life Assurance Company,
Crown Life Insurance Company

Jerry E.A. Nickerson [1, 3]
Chairman of the Board,
H.B. Nickerson & Sons Limited

David A. Nield [2, 4, 5]
Corporate Director

R. Jeffrey Orr [2, 3, 4]
President and Chief Executive Officer,
Power Financial Corporation

Michel Plessis-Bélair, FCA
Vice-Chairman,
Power Corporation of Canada

Henri-Paul Rousseau, Ph.D. [3]
Vice-Chairman,
Power Corporation of Canada and
Power Financial Corporation

Raymond Royer, O.C., O.Q., FCA [1]
Corporate Director

Philip K. Ryan [3]
Executive Vice-President and
Chief Financial Officer,
Power Corporation of Canada and
Power Financial Corporation

T. Timothy Ryan, Jr. [2, 3]
President and Chief Executive Officer,
Securities Industry and Financial
Markets Association

Emőke J.E. Szathmáry, C.M., O.M., Ph.D., FRSC
President Emeritus,
University of Manitoba

Brian E. Walsh [2, 3, 4]
Chairman and Chief Investment Officer,
Saguenay Strathmore Capital, LLC

James W. Burns, O.C., O.M.
Director Emeritus

The Honourable
Paul Desmarais, P.C., C.C., O.Q.
Director Emeritus

1 member of the Audit Committee
2 member of the Compensation Committee
3 member of the Executive Committee
4 member of the Governance and Nominating Committee
5 member of the Conduct Review Committee

EXECUTIVE OFFICERS

D. Allen Loney
President and Chief Executive Officer

Arshil Jamal
President and Chief Operating Officer,
Europe

Paul A. Mahon
President and Chief Operating Officer,
Canada

Mitchell T.G. Graye
President and Chief Executive Officer,
Great-West Life & Annuity Insurance
Company

Andrew D. Brands
Senior Vice-President, General Counsel,
Canada and Europe

S. Mark Corbett
Executive Vice-President and
Chief Investment Officer

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

Garry MacNicholas
Senior Vice-President,
Capital Management

Richard G. Schultz
Senior Vice-President, General Counsel,
Great-West Life & Annuity Insurance
Company

Laurie A. Speers
Vice-President and Corporate Secretary

SHAREHOLDER INFORMATION

Registered Office

100 Osborne Street North, Winnipeg, Manitoba, Canada R3C 1V3

Stock Exchange Listings

Symbol: GWO

The following shares are listed on the Toronto Stock Exchange: Common Shares (**GWO**); Non-Cumulative First Preferred Shares Series F (**GWO.PR.F**), Series G (**GWO.PR.G**), Series H (**GWO.PR.H**), Series I (**GWO.PR.I**), Series L (**GWO.PR.L**), Series M (**GWO.PR.M**); and Non-Cumulative 5-Year Reset First Preferred Shares Series J (**GWO.PR.J**) and Series N (**GWO.PR.N**).

Transfer Agent and Registrar

The registrar and transfer agent of Great-West Lifeco Inc. is **Computershare Investor Services Inc.**

In Canada, the Common Shares and Non-Cumulative First Preferred Shares, Series F are transferable at the following locations:

Canadian Offices

Computershare Investor Services Inc.
9th Floor, 100 University Avenue, Toronto, Ontario, Canada M5J 2Y1
6th Floor, 530 8th Avenue S.W., Calgary, Alberta, Canada T2P 3S8
1500 University Street, Suite 700, Montréal, Québec, Canada H3A 3S8
2nd Floor, 510 Burrard Street, Vancouver, British Columbia, Canada V6C 3B9
Phone: 1-888-284-9137 (toll free in North America), 514-982-9557 (direct dial)

The Non-Cumulative First Preferred Shares, Series G, H, I, J, L, M and N are only transferable at the Toronto Office of Computershare Investor Services Inc.

Internationally, the Common Shares and Non-Cumulative First Preferred Shares, Series F are also transferable at the following locations:

United States Office

Computershare Trust Company, N.A.
350 Indiana Street, Suite 800, Golden, Colorado, United States 80401
Phone: 1-888-284-9137 (toll free in North America)

United Kingdom Office

Computershare Investor Services PLC
P.O. Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, United Kingdom
Phone: 0870 702 0003

Ireland Office

Computershare Investor Services (Ireland) Limited
P.O. Box 954, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland
Phone: 353 1 216 3100

Shareholders wishing to contact the transfer agent by email can do so at GWO@computershare.com.

Dividends

Common Shares and First Preferred Shares Series F, G, H, I, J, L, M and N – Dividend record dates are usually between the 1st and 4th of March, June, September and December. Dividends are usually paid the last day of each quarter.

Investor Information

For financial information about Great-West Lifeco Inc. please contact:

Canada Operations Senior Vice-President and Chief Financial Officer, Canada 204-946-8396

United States Operations Senior Vice-President and Controller 303-737-4015

Europe Operations Vice-President and Chief Financial Officer, Europe 416-552-6455

For copies of the annual or quarterly reports, please contact the Corporate Secretary's Office at 204-946-4388 or visit **www.greatwestlifeco.com**.

Common Share Investment Data*

	Market price per common share ($)			Dividend	Dividend	Dividend
	High	Low	Close	paid ($)	payout ratio**	yield***
2011	**27.77**	**19.17**	**20.40**	**1.23**	**57.8%**	**5.2%**
2010	29.17	23.73	26.40	1.23	72.2%	4.7%
2009	27.01	11.35	26.88	1.23	71.4%	6.4%
2008	35.29	19.49	20.70	1.20	76.9%	4.4%
2007	37.58	32.50	35.57	1.06	46.0%	3.0%
2006	34.39	27.16	33.80	0.9275	44.1%	3.0%
2005	30.70	26.01	30.70	0.81	41.4%	2.9%
2004	26.99	21.87	26.70	0.685	38.2%	2.8%

* In October 2004 the Corporation's common shares were subdivided on a two for one basis. The data presented has been adjusted to reflect this share subdivision.
** Ratio based on IFRS basic earnings in 2010 and 2011 and CGAAP basic earnings for 2009 and prior.
*** Dividends as per cent of average high and low market price.

GREAT-WEST LIFECO INC.

A MEMBER OF THE POWER FINANCIAL CORPORATION GROUP OF COMPANIES™

Conserving for our future

Great-West Lifeco recognizes the importance of environmental responsibility and takes a balanced and sustainable approach to conducting business.

To help reduce our environmental footprint, annual meeting materials for our group of companies, including annual reports and management proxy circulars, have been printed on 30 per cent post-consumer recycled fibre.

Domtar EarthChoice® papers are Forest Stewardship Council™ (FSC®) and Rainforest Alliance Certified™. Using this paper has helped save:

355 Trees	**162,602** Gallons of waste water	**145** Million BTUs net energy	**10,308** Pounds of solid waste	**36,059** Pounds of greenhouse gases

** Environmental impact estimates for savings pertaining to the use of post-consumer recycled fibre are based on the Environmental Paper Network calculator.*

When you finish reading this report, please consider recycling it. You may also download an electronic copy at www.greatwestlifeco.com.

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