GREAT-WEST LIFECO INC.

Consolidated Financial Statements

For the year 2012

GREAT-WEST LIFECO INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(in Canadian $ millions except per share amounts)

	For the years ended December 31	
	2012	2011
Income		
Premium income		
Gross premiums written	**$ 21,839**	$ 20,013
Ceded premiums	**(3,019)**	(2,720)
Total net premiums	**18,820**	17,293
Net investment income (note 5)		
Regular net investment income	**5,653**	5,538
Changes in fair value through profit or loss	**2,643**	4,164
Total net investment income	**8,296**	9,702
Fee and other income	**2,945**	2,903
	30,061	29,898
Benefits and expenses		
Policyholder benefits		
Insurance and investment contracts		
Gross	**17,431**	16,591
Ceded	**(1,457)**	(1,217)
Total net policyholder benefits	**15,974**	15,374
Policyholder dividends and experience refunds	**1,437**	1,424
Change in insurance and investment contract liabilities	**5,040**	6,245
Total paid or credited to policyholders	**22,451**	23,043
Commissions	**1,781**	1,548
Operating and administrative expenses (note 28)	**2,572**	1,950
Premium taxes	**293**	264
Financing charges (note 15)	**285**	289
Amortization of finite life intangible assets	**103**	100
Earnings before income taxes	**2,576**	2,704
Income taxes (note 27)	**368**	465
Net earnings before non-controlling interests	**2,208**	2,239
Attributable to non-controlling interests (note 19)	**278**	121
Net earnings	**1,930**	2,118
Preferred share dividends	**115**	96
Net earnings - common shareholders	**$ 1,815**	$ 2,022
Earnings per common share (note 24)		
Basic	**$ 1.912**	$ 2.129
Diluted	**$ 1.900**	$ 2.112

GREAT-WEST LIFECO INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in Canadian $ millions)

	For the years ended December 31	
	2012	2011
Net earnings	**$ 1,930**	$ 2,118
Other comprehensive income (loss)		
Unrealized foreign exchange gains (losses) on translation of foreign operations	**(78)**	206
Income tax (expense) benefit	**-**	1
Unrealized gains (losses) on available for sale assets	**87**	235
Income tax (expense) benefit	**(25)**	(51)
Realized (gains) losses on available for sale assets	**(126)**	(121)
Income tax expense (benefit)	**31**	31
Unrealized gains (losses) on cash flow hedges	**14**	(24)
Income tax (expense) benefit	**(5)**	10
Realized (gains) losses on cash flow hedges	**2**	2
Income tax expense (benefit)	**(1)**	(1)
Non-controlling interests	**3**	(84)
Income tax (expense) benefit	**1**	22
	(97)	226
Comprehensive income	**$ 1,833**	$ 2,344

GREAT-WEST
LIFECO INC.

CONSOLIDATED BALANCE SHEETS

(in Canadian $ millions)

	December 31	
	2012	2011
Assets		
Cash and cash equivalents (note 4)	**$ 1,895**	$ 2,056
Bonds (note 5)	**82,536**	78,073
Mortgage loans (note 5)	**17,875**	17,432
Stocks (note 5)	**7,098**	6,704
Investment properties (note 5)	**3,525**	3,201
Loans to policyholders	**7,082**	7,162
	120,011	114,628
Funds held by ceding insurers (note 6)	**10,537**	9,923
Goodwill (note 10)	**5,397**	5,401
Intangible assets (note 10)	**3,115**	3,154
Derivative financial instruments (note 29)	**997**	968
Owner occupied properties (note 11)	**514**	491
Fixed assets (note 11)	**154**	137
Reinsurance assets (note 14)	**2,064**	2,061
Other assets (note 12)	**4,893**	4,283
Deferred tax assets (note 27)	**1,088**	1,140
Investments on account of segregated fund policyholders (note 13)	**104,948**	96,582
Total assets	**$ 253,718**	$ 238,768
Liabilities		
Insurance contract liabilities (note 14)	**$ 119,919**	$ 114,730
Investment contract liabilities (note 14)	**739**	782
Debentures and other debt instruments (note 16)	**4,283**	4,313
Funds held under reinsurance contracts	**335**	169
Derivative financial instruments (note 29)	**342**	316
Other liabilities (note 17)	**4,579**	4,287
Deferred tax liabilities (note 27)	**868**	929
Repurchase agreements	**-**	23
Capital trust securities (note 18)	**119**	533
Investment and insurance contracts on account of segregated fund policyholders (note 13)	**104,948**	96,582
Total liabilities	**236,132**	222,664
Equity		
Non-controlling interests (note 19)		
Participating account surplus in subsidiaries	**2,505**	2,227
Non-controlling interests in subsidiaries	**5**	3
Shareholders' equity		
Share capital (note 20)		
Preferred shares	**2,544**	1,894
Common shares	**5,848**	5,828
Accumulated surplus	**6,954**	6,327
Accumulated other comprehensive loss (note 25)	**(330)**	(233)
Contributed surplus	**60**	58
Total equity	**17,586**	16,104
Total liabilities and equity	**$ 253,718**	$ 238,768

GREAT-WEST LIFECO INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in Canadian $ millions)

December 31, 2012

	Share capital	Contributed surplus	Accumulated surplus	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance, beginning of year	**$ 7,722**	**$ 58**	**$ 6,327**	**$ (233)**	**$ 2,230**	**$ 16,104**
Net earnings	**-**	**-**	**1,930**	**-**	**278**	**2,208**
Other comprehensive loss	**-**	**-**	**-**	**(97)**	**(4)**	**(101)**
	7,722	**58**	**8,257**	**(330)**	**2,504**	**18,211**
Share issue costs (note 20)	**-**	**-**	**(14)**	**-**	**-**	**(14)**
Reallocation from participating account to shareholder account in London Life (note 19)	**-**	**-**	**(6)**	**-**	**6**	**-**
Dividends to shareholders						
Preferred shares (note 20)	**-**	**-**	**(115)**	**-**	**-**	**(115)**
Common shareholders (note 24)	**-**	**-**	**(1,168)**	**-**	**-**	**(1,168)**
Shares issued under stock option plan (note 20)	**20**	**-**	**-**	**-**	**-**	**20**
Issuance of preferred shares (note 20)	**650**	**-**	**-**	**-**	**-**	**650**
Share-based payments	**-**	**2**	**-**	**-**	**-**	**2**
Balance, end of year	**$ 8,392**	**$ 60**	**$ 6,954**	**$ (330)**	**$ 2,510**	**$ 17,586**

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						
Preferred shares (note 20)	-	-	(96)	-	-	(96)
Common shareholders (note 24)	-	-	(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

GREAT-WEST
LIFECO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian $ millions)

	For the years ended December 31	
	2012	2011
Operations		
Earnings before income taxes	**$ 2,576**	$ 2,704
Income taxes (paid), net of refunds received	**(177)**	303
Adjustments:		
Change in insurance and investment contract liabilities	**5,034**	6,029
Change in funds held by ceding insurers	**205**	464
Change in funds held under reinsurance contracts	**201**	25
Change in deferred acquisition costs	**(2)**	(15)
Change in reinsurance assets	**45**	415
Changes in fair value through profit or loss	**(2,643)**	(4,164)
Other	**(517)**	(917)
Cash flows from operations	**4,722**	4,844
Financing Activities		
Issue of common shares	**20**	26
Issue of preferred shares	**650**	-
Decrease in line of credit of subsidiary	**-**	(13)
Increase in (repayment of) debentures and other debt instruments	**(1)**	7
Redemption of capital trust securities	**(409)**	-
Share issue costs	**(14)**	-
Dividends paid on common shares	**(1,168)**	(1,169)
Dividends paid on preferred shares	**(115)**	(96)
	(1,037)	(1,245)
Investment Activities		
Bond sales and maturities	**23,959**	19,590
Mortgage loan repayments	**2,071**	1,756
Stock sales	**2,062**	2,334
Investment property sales	**-**	73
Change in loans to policyholders	**(57)**	(198)
Change in repurchase agreements	**(23)**	(1,053)
Investment in bonds	**(26,964)**	(20,081)
Investment in mortgage loans	**(2,569)**	(2,991)
Investment in stocks	**(2,104)**	(2,626)
Investment in investment properties	**(213)**	(211)
	(3,838)	(3,407)
Effect of changes in exchange rates on cash and cash equivalents	**(8)**	24
Increase (decrease) in cash and cash equivalents	**(161)**	216
Cash and cash equivalents, beginning of year	**2,056**	1,840
Cash and cash equivalents, end of year	**$ 1,895**	$ 2,056
Supplementary cash flow information		
Interest income received	**$ 4,645**	$ 4,649
Interest paid	**$ 283**	$ 290
Dividend income received	**$ 206**	$ 191

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in Canadian $ millions except per share amounts)

1. Corporate Information

Great-West Lifeco Inc. (Lifeco or the Company) is a publicly listed company (Toronto Stock Exchange: 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 (Power Financial) group of companies and its direct parent is Power Financial.

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 (Great-West Financial) and Putnam Investments, LLC (Putnam LLC).

The consolidated financial statements of the Company as at and for the year ended December 31, 2012 were approved by the Board of Directors on February 7, 2013.

2. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of the Company have been prepared in compliance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. The financial statements are prepared using International Financial Reporting Standards accounting policies which became Canadian generally accepted accounting principles for publicly accountable enterprises and were adopted by the Company for fiscal years beginning on January 1, 2011.

<u>Basis of Consolidation</u>
The consolidated financial statements comprise the financial statements of the Company as at and for the year ended December 31, 2012 with comparatives for 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 or losses, including dividends resulting from intra-group transactions, are eliminated on consolidation.

<u>Use of Estimates and Assumptions</u>
In preparation of these Consolidated Financial Statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, net earnings and related disclosures. Although some variability is inherent in these estimates, management believes that the amounts recorded are reasonable. Key sources of estimation uncertainty include: valuation of insurance and investment contracts, determination of the fair value of financial instruments, carrying value of goodwill and intangible assets, legal and other provisions, income taxes and pension plans and other post-employment benefits. Areas where significant estimates and assumptions have been used by management are further described in the relevant accounting policies of this note and other notes throughout the financial statements.

Significant Judgments

In preparation of these Consolidated Financial Statements, management is required to make significant judgments that affect the carrying amounts of certain assets and liabilities, and the reported amounts of revenues and expenses recorded during the period. Significant judgments have been made in the following areas and are discussed throughout the notes in these Consolidated Financial Statements: insurance and investment contract liabilities, fair value of financial instruments, goodwill and intangible assets, pension plans and other post-employment benefits, income taxes, provisions, subsidiaries and special purpose entities, deferred acquisition costs, deferred income reserves, owner occupied properties and fixed assets and identification of operating segments.

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, and investment properties. 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. Realized gains and losses are reclassified from other comprehensive income 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 net investment income in the Consolidated Statements of Earnings.

Investments in equity instruments where a fair value cannot be measured reliably are classified as available for sale and carried at cost. Investments in stocks for 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 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 net investment income.

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

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

Investment Properties

Fair 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 fair value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However market price 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 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.

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

(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, 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 Canada.

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, 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.

<u>Derivatives not designated as hedges for accounting purposes</u>
For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

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

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

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

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

(g) Embedded Derivatives

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

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 other comprehensive income. 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.

(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) 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.

(k) 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.

(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 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, property leases and technology. These finite life intangible assets are amortized over their estimated useful lives, typically ranging between 5 and 30 years.

Indefinite life intangible assets include brands and trademarks, customer contracts and the shareholders' 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.

Goodwill has been allocated to cash generating units, representing the lowest level in which goodwill is monitored for internal reporting purposes. Goodwill is tested for impairment by comparing carrying value of each cash generating unit's 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.

Interest income on bonds and mortgages is recognized and accrued using the effective yield method.

Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed stocks, and usually the notification date or date when the shareholders have approved the dividend for private equity instruments.

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

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

(n) Owner Occupied Properties and Fixed Assets

Property held for own use and fixed assets are carried at cost less accumulated depreciation and impairments. Depreciation is charged 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

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted if necessary.

(o) Deferred Acquisition Costs

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

(p) Segregated Funds

Segregated funds assets and liabilities arise from contracts where all financial risks associated with the related assets are borne by policyholders and are presented separately in the Consolidated Balance Sheets at fair value. Investment income and changes in fair 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 contracts 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 contract. Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, *Financial Instruments: Recognition & Measurement*. The Company has not classified any contracts as investment contracts with discretionary participating features.

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

Investment contracts are contracts that carry financial risk, which is the risk of a possible future change in one or more of the following: interest rate, commodity price, foreign exchange rate, or credit rating. Refer to note 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 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. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

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

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

(r) Deferred Income Reserves

Included in other liabilities are deferred income reserves 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.

(s) Income Taxes

The income tax expense for the period represents the sum of current income tax and deferred income tax. Income tax is recognized as an expense or income in profit or loss except to the extent that it relates to items that are recognized outside profit or loss (whether in other comprehensive income 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 probable that taxable profits will be available against which deductible temporary differences, unused tax losses and carryforwards 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 net 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 probable 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 probable 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 probable that the temporary differences will not reverse in the foreseeable future.

Under the balance sheet liability method, a provision for tax uncertainties which meet the probable threshold for recognition is measured based on the probability weighted average approach.

(t) Policyholder Benefits

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

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

Non-controlling interests in subsidiaries represents 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 of the Company's subsidiaries.

(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 with the change in the liability recorded in operating expenses 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. Diluted earnings per share is calculated by adjusting common shareholders' net income and the weighted average number of common shares outstanding for the effects of all potential dilutive common shares assuming that all convertible instruments are converted and outstanding options are exercised (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 Great-West Financial and Putnam 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.

(ab) Comparative Figures

Certain of the 2011 amounts presented in the notes to consolidated financial statements for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

3. Future Accounting Policies

The Company may be impacted in the future by the International Financial Reporting Standards set out in the following:

Effective in 2013

Revised/New Standard	Summary of Future Changes
IAS 19 - Employee Benefits	The International Accounting Standards Board 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 other comprehensive income. As a result the net pension asset or liability will reflect the funded status of the pension plans on the Consolidated Balance Sheets. Under the revised IAS 19, *Employee Benefits* the expected return on plan assets is no longer applied to the fair value of the assets to calculate the benefit cost. The revised IAS 19 requires the same discount rate be applied to measure the benefit obligation and to the plan assets to determine the net interest expense (income). This discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Further, the revised standard includes changes to how the defined benefit obligation and the fair value of the plan assets and the components of the pension expense would be presented and disclosed 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. In accordance with the transitional provisions in IAS 19, this change in International Financial Reporting Standards will be applied retroactively which is anticipated to decrease opening equity by approximately $400 at January 1, 2012, with an additional decrease to opening equity of approximately $200 at January 1, 2013. For further information on the Company's employee benefit plans, please refer to note 23.

Revised/New Standard	Summary of Future Changes
IFRS 10 - Consolidated Financial Statements; IFRS 11 - Joint Arrangements; IFRS 12 - Disclosure of Interests 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 Interest in Other Entities* for the presentation and preparation of its consolidated financial statements. IFRS 10, *Consolidated Financial Statements* uses consolidation 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 for 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. In June 2012, the International Accounting Standards Board released amendments clarifying the transitional guidance offered in IFRS 10 as well as providing additional transitional relief in IFRS 10, IFRS 11, and IFRS 12 limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The Company continues to evaluate the impact of the above standards on its consolidation procedures and disclosure in preparation of the January 1, 2013 effective date and does not anticipate it will have a material impact. The International Accounting Standards Board issued amendments to IFRS 10 and IFRS 12 in October 2012 that introduced an exception from consolidation for the controlled entities of investment entities. The Company continues to review the financial reporting of the segregated funds for the risk of policyholders presented within the Company's financial statements to determine whether it would be different than the current reporting under International Financial Reporting Standards.
IFRS 13 - Fair Value Measurement	Effective January 1, 2013, the Company will adopt the guidance of IFRS 13, *Fair Value Measurement* which seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard relates primarily to disclosure and will not impact the financial results of the Company.

Revised/New Standard	Summary of Future Changes
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 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. This revised standard relates only to presentation and will not impact the financial results of the Company.
IFRS 7 - Financial Instruments: Disclosure	Effective January 1, 2013, the Company will adopt the guidance in the amendments to IFRS 7, *Financial Instruments*. The amended standard introduces financial instrument disclosures related to rights of offset and related arrangements under master netting agreements. This revised standard relates only to disclosure and will not impact the financial results of the Company.

Proposed to be effective subsequent to 2013

Revised/New Standard	Summary of Future Changes
IFRS 4 - Insurance Contracts	The International Accounting Standards Board 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 Canadian Asset Liability 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. Since the release of the exposure draft, there have been discussions within the insurance industry and between accounting standard setters globally recommending significant proposed changes to the 2010 exposure draft. At this time no new standard has been either re-exposed or released. The Company will continue to measure insurance contract liabilities using the Canadian Asset Liability Method until such time when a new International Financial Reporting Standard 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.

Revised/New Standard	Summary of Future Changes
IFRS 9 - Financial Instruments	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; • an 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, *Financial Instruments* on the Company will be evaluated after the remaining stages of the International Accounting Standards Board'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. The current timetable for adoption of IFRS 9 is for the annual period beginning January 1, 2015, however, the Company continues to monitor this standard in conjunction with the developments to IFRS 4.
IAS 17 - Leases	The International Accounting Standards Board 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.
IAS 18 - Revenue Recognition	The International Accounting Standards Board issued a second exposure draft in November 2011 which proposed a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer. The full impact of adoption of the proposed changes will be determined once the final revenue recognition standard is issued, which is targeted for release in 2013.
IAS 32 – Financial Instruments: Presentation	Effective January 1, 2014, the Company will adopt the guidance in the amendments to IAS 32, *Financial Instruments: Presentation*. The amended standard clarifies the requirements for offsetting financial assets and financial liabilities. The Company is evaluating the impact this standard will have on the presentation of its financial statements.

4. Cash and Cash Equivalents

Cash and cash equivalents includes amounts held at the Lifeco holding company level and amounts held in Lifeco's consolidated subsidiary companies.

	2012	2011
Cash	**$ 1,048**	$ 812
Short-term deposits	**847**	1,244
Total	**$ 1,895**	$ 2,056

At December 31, 2012 cash of $34 was restricted for use by the Company ($41 at December 31, 2011) in respect of cash held in trust for reinsurance agreements or with regulatory authorities.

5. Portfolio Investments

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

	2012		2011	
	Carrying value	**Fair value**	Carrying value	Fair value
Bonds				
Designated fair value through profit or loss [1]	**$ 62,737**	**$ 62,737**	$ 59,856	$ 59,856
Classified fair value through profit or loss [1]	**2,113**	**2,113**	1,853	1,853
Available for sale	**6,752**	**6,752**	6,620	6,620
Loans and receivables	**10,934**	**12,438**	9,744	10,785
	82,536	**84,040**	78,073	79,114
Mortgage loans				
Residential	**6,034**	**6,439**	5,996	6,424
Non-residential	**11,841**	**12,628**	11,436	12,238
	17,875	**19,067**	17,432	18,662
Stocks				
Designated fair value through profit or loss [1]	**5,965**	**5,965**	5,502	5,502
Available for sale	**788**	**788**	864	864
Other	**345**	**383**	338	406
	7,098	**7,136**	6,704	6,772
Investment properties	**3,525**	**3,525**	3,201	3,201
Total	**$ 111,034**	**$ 113,768**	$ 105,410	$ 107,749

[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.

(b) Carrying value of bonds and mortgages by term to maturity are as follows:

	2012			
	Term to maturity			
	1 year or less	**Over 1 - 5 years**	**Over 5 years**	**Total**
Bonds	**$ 7,972**	**$ 16,653**	**$ 57,518**	**$ 82,143**
Mortgage loans	**1,279**	**6,177**	**10,397**	**17,853**
Total	**$ 9,251**	**$ 22,830**	**$ 67,915**	**$ 99,996**

	2011			
	Term to maturity			
	1 year or less	Over 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
Total	$ 8,885	$ 22,674	$ 63,611	$ 95,170

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

(c) Stocks include the Company's investment, held through Great-West Life, in an affiliated company, IGM, a member of the Power Financial 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 9,203,061 shares of IGM at December 31, 2012 (9,203,309 at December 31, 2011) representing a 3.62% ownership interest (3.57% at December 31, 2011). 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, shared representation on the Boards of Directors of the Company and IGM, interchange of managerial personnel, and certain shared strategic alliances, significant intercompany transactions and services agreements that influence the financial and operating policies of both companies.

	2012	2011
Carrying value, beginning of year	**$ 338**	$ 330
Equity method share of IGM earnings	**26**	27
Dividends received	**(19)**	(19)
Carrying value, end of year	**$ 345**	$ 338
Share of equity, end of year	**$ 162**	$ 160
Fair value, end of year	**$ 383**	$ 406

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 method 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, 2012 can be obtained in its publicly available information.

At December 31, 2012 and 2011 IGM owned 37,787,388 common shares of the Company.

(d) Included in portfolio investments are the following:

(i) Carrying amount of impaired investments

	2012	2011
Impaired amounts by type		
Fair value through profit or loss	**$ 365**	$ 290
Available for sale	**27**	51
Loans and receivables	**41**	35
Total	**$ 433**	$ 376

Provisions on loans and receivables were $21 at December 31, 2012 and $36 at December 31, 2011.

(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:

	2012			2011		
	Bonds	**Mortgage loans**	**Total**	Bonds	Mortgage loans	Total
Balance, beginning of year	**$ 2**	**$ 34**	**$ 36**	$ 36	$ 28	$ 64
Net provision (recovery) for credit losses - in year	**(1)**	**(8)**	**(9)**	(20)	7	(13)
Write-offs, net of recoveries	**(1)**	**(4)**	**(5)**	(14)	(1)	(15)
Other (including foreign exchange rate changes)	**-**	**(1)**	**(1)**	-	-	-
Balance, end of year	**$ -**	**$ 21**	**$ 21**	$ 2	$ 34	$ 36

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

(e) Net investment income comprises the following:

	2012					
	Bonds	**Mortgage loans**	**Stocks**	**Investment properties**	**Other**	**Total**
Regular net investment income:						
Investment income earned	**$ 3,687**	**$ 897**	**$ 230**	**$ 255**	**$ 550**	**$ 5,619**
Net realized gains						
Available for sale	**124**	**-**	**2**	**-**	**-**	**126**
Other classifications	**10**	**27**	**-**	**-**	**-**	**37**
Net recovery (provision) for credit losses on loans and receivables	**1**	**8**	**-**	**-**	**-**	**9**
Other income and expenses	**-**	**-**	**-**	**(63)**	**(75)**	**(138)**
	3,822	**932**	**232**	**192**	**475**	**5,653**
Changes in fair value on fair value through profit or loss assets:						
Net realized/unrealized gains (losses)						
Classified fair value through profit or loss	**22**	**-**	**-**	**-**	**-**	**22**
Designated fair value through profit or loss	**2,196**	**-**	**389**	**104**	**(68)**	**2,621**
	2,218	**-**	**389**	**104**	**(68)**	**2,643**
Total	**$ 6,040**	**$ 932**	**$ 621**	**$ 296**	**$ 407**	**$ 8,296**

	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						
Available for sale	119	-	5	-	-	124
Other classifications	11	16	-	-	-	27
Net recovery (provision) for credit losses on 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
Designated fair value through profit or loss	4,166	-	(280)	143	61	4,090
	4,240	-	(280)	143	61	4,164
Total	$ 8,163	$ 887	$ (85)	$ 332	$ 405	$ 9,702

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**:**

		2012		2011
Balance, beginning of year	**$**	**3,201**	$	2,957
Additions		**166**		161
Change in fair value through profit or loss		**104**		143
Disposals		**-**		(99)
Foreign exchange rate changes		**54**		39
Balance, end of year	**$**	**3,525**	$	3,201

(g) Transferred Financial Assets

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

6. Funds Held by Ceding Insurers

Included in funds held by ceding insurers of $10,537 at December 31, 2012 ($9,923 at December 31, 2011) 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.

At December 31, 2012 CLIRE had amounts on deposit of $9,951 ($9,411 at December 31, 2011). The details of the funds on deposit and related credit risk on the funds are as follows:

(a) Carrying values and estimated fair values:

	2012		2011	
	Carrying value	**Fair value**	Carrying value	Fair value
Cash and cash equivalents	**$ 120**	**$ 120**	$ 49	$ 49
Bonds	**9,655**	**9,655**	9,182	9,182
Other assets	**176**	**176**	180	180
Total	**$ 9,951**	**$ 9,951**	$ 9,411	$ 9,411
Supporting:				
Reinsurance liabilities	**9,406**	**9,406**	9,082	9,082
Surplus	**545**	**545**	329	329
Total	**$ 9,951**	**$ 9,951**	$ 9,411	$ 9,411

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

	2012	2011
Bonds issued or guaranteed by:		
Canadian federal government	**$ 71**	$ -
Provincial, state, and municipal governments	**16**	88
U.S. Treasury and other U.S. agencies	**16**	-
Other foreign governments	**2,455**	3,074
Government related	**443**	369
Supranationals	**172**	128
Asset-backed securities	**258**	242
Residential mortgage-backed securities	**87**	73
Banks	**2,070**	1,807
Other financial institutions	**1,007**	747
Basic materials	**58**	21
Communications	**224**	239
Consumer products	**617**	404
Industrial products/services	**31**	26
Natural resources	**320**	220
Real estate	**475**	381
Transportation	**145**	117
Utilities	**1,119**	1,135
Miscellaneous	**71**	111
Total	**$ 9,655**	$ 9,182

(c) Asset quality

Bond Portfolio By Credit Rating

		2012		2011
AAA	**$**	**3,103**	$	3,520
AA		**2,183**		1,819
A		**3,539**		3,116
BBB		**507**		468
BB and lower		**323**		259
Total	**$**	**9,655**	$	9,182

7. Financial Instruments 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 Risk Committee of the Board of Directors is responsible for the oversight of the Company's key risks.

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 to make 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.

(i) Maximum Exposure to Credit Risk

The following 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.

	2012	2011
Cash and cash equivalents	**$ 1,895**	$ 2,056
Bonds		
Fair value through profit or loss	**64,850**	61,709
Available for sale	**6,752**	6,620
Loans and receivables	**10,934**	9,744
Mortgage loans	**17,875**	17,432
Loans to policyholders	**7,082**	7,162
Funds held by ceding insurers [(1)]	**10,537**	9,923
Reinsurance assets	**2,064**	2,061
Interest due and accrued	**1,098**	1,108
Accounts receivable	**977**	813
Premiums in course of collection	**484**	422
Trading account assets	**313**	207
Other financial assets [(2)]	**973**	685
Derivative assets	**997**	968
Total	**$ 126,831**	$ 120,910

(1) Includes $9,951 ($9,411 at December 31, 2011) of funds held by ceding insurers where the Company retains the credit risk of the assets supporting the liabilities ceded (see note 6).

(2) Includes items such as current income taxes receivable and miscellaneous other assets of the Company (see note 12).

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 $25 of collateral received as at December 31, 2012 ($21 of collateral received as at December 31, 2011) 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 provides details of the carrying value of bonds by issuer, industry sector and geographic distribution:

	2012			
	Canada	United States	Europe	Total
Bonds issued or guaranteed by:				
Canadian federal government	$ 4,873	$ 3	$ 43	$ 4,919
Provincial, state, and municipal governments	6,454	1,881	61	8,396
U.S. Treasury and other U.S. agencies	305	3,421	976	4,702
Other foreign governments	151	29	8,044	8,224
Government related	1,584	-	1,205	2,789
Supranationals	453	11	289	753
Asset-backed securities	2,587	3,117	830	6,534
Residential mortgage-backed securities	16	452	165	633
Banks	2,140	359	2,317	4,816
Other financial institutions	801	1,578	1,964	4,343
Basic materials	252	724	231	1,207
Communications	499	181	553	1,233
Consumer products	1,903	1,975	1,867	5,745
Industrial products/services	873	984	323	2,180
Natural resources	1,100	665	565	2,330
Real estate	850	-	1,739	2,589
Transportation	1,747	696	598	3,041
Utilities	4,257	3,317	3,342	10,916
Miscellaneous	2,317	856	312	3,485
Total long term bonds	33,162	20,249	25,424	78,835
Short term bonds	2,388	358	955	3,701
Total	$ 35,550	$ 20,607	$ 26,379	$ 82,536

	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
Total	$ 34,231	$ 19,445	$ 24,397	$ 78,073

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

	2012			
	Single family residential	**Multi-family residential**	**Commercial**	**Total**
Canada	**$ 1,676**	**$ 3,250**	**$ 6,982**	**$ 11,908**
United States	**-**	**921**	**2,139**	**3,060**
Europe	**-**	**187**	**2,720**	**2,907**
Total	**$ 1,676**	**$ 4,358**	**$ 11,841**	**$ 17,875**

	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
Total	$ 1,670	$ 4,326	$ 11,436	$ 17,432

(iii) Asset Quality

Bond Portfolio By Credit Rating

	2012	2011
AAA	**$ 29,302**	$ 29,612
AA	**13,463**	12,525
A	**23,767**	22,435
BBB	**14,662**	12,399
BB and lower	**1,342**	1,102
Total	**$ 82,536**	$ 78,073

Derivative Portfolio By Credit Rating

	2012	2011
Over-the-counter contracts (counterparty ratings):		
AAA	**$ 9**	$ 12
AA	**106**	361
A	**882**	595
Total	**$ 997**	$ 968

(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 provides carrying values of the loans past due, but not impaired:

	2012	2011
Less than 30 days	**$ 12**	$ 3
30 - 90 days	**-**	1
Greater than 90 days	**4**	1
Total	**$ 16**	$ 5

(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:

	2012	2011
Participating	**$ 892**	$ 852
Non-participating	**1,667**	1,648
Total	**$ 2,559**	$ 2,500

(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 70% (approximately 72% in 2011) of insurance and investment contract liabilities are non-cashable prior to maturity or subject to fair 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 committed line of credit with a Canadian chartered bank. As well, Putnam LLC maintains a U.S. $500 revolving credit agreement with a consortium of banks and on October 18, 2012, the Company renewed a U.S. $304 Putnam LLC non-revolving term loan facility, guaranteed by Lifeco, for three years (see note 16).

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 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	$ 4,312	$ 296	$ 1	$ 301	$ -	$ -	$ 3,714
Capital trust securities [1]	150	-	-	-	-	-	150
Purchase obligations	83	58	13	10	2	-	-
Pension contributions	133	133	-	-	-	-	-
Total	$ 4,678	$ 487	$ 14	$ 311	$ 2	$ -	$ 3,864

[1] Payments due have not been reduced to reflect that the Company held capital trust securities of $37 principal amount ($45 carrying value).

(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.

Caution Related to Risk Sensitivities

These consolidated financial statements include estimates of sensitivities and risk exposure measures for certain risks, such as the sensitivity due to specific changes in interest rate levels projected and market prices as at the valuation date. Actual results can differ significantly from these estimates for a variety of reasons including:

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

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

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

Projected cash flows from fixed income assets used in actuarial calculations are reduced to provide for potential asset default losses. The net effective yield rate reduction averaged 0.18% (0.19% in 2011). 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 shareholders 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 $181 causing an increase in net earnings of approximately $121.
- The effect of an immediate 1% parallel decrease in the yield curve would be to increase these insurance and investment contract liabilities by approximately $715 causing a decrease in net earnings of approximately $504.

In addition to 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 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 $22 causing an increase in net earnings of approximately $18. A 10% decrease in equity markets would be expected to additionally increase non-participating insurance and investment contract liabilities by approximately $128 causing a decrease in net earnings of approximately $96.

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 $443 causing an increase in net earnings of approximately $342. A 1% decrease in the best estimate assumption would be expected to increase non-participating insurance contract liabilities by approximately $492 causing a decrease in net earnings of approximately $376.

(iv) Segregated funds guarantee exposure

The Company offers retail segregated fund products, unitized with profits products and variable annuity products that provide for certain guarantees that are tied to the fair values of the investment funds. A significant decline in the fair 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:

	2012				
		Investment deficiency by benefit type			
	Fair value	**Income**	**Maturity**	**Death**	**Total***
Canada	**$ 24,192**	**$ -**	**$ 29**	**$ 181**	**$ 181**
United States	**7,272**	**-**	**-**	**59**	**59**
Europe	**3,665**	**552**	**40**	**71**	**624**
Total	**$ 35,129**	**$ 552**	**$ 69**	**$ 311**	**$ 864**

	2011				
		Investment deficiency by benefit type			
	Fair value	Income	Maturity	Death	Total*
Canada	$ 22,837	$ -	$ 39	$ 301	$ 301
United States	7,041	1	-	79	80
Europe	3,232	641	124	174	817
Total	$ 33,110	$ 642	$ 163	$ 554	$ 1,198

*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, 2012 and December 31, 2011.

8. Financial Instruments Fair Value Measurement

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

Level 1: Fair value measurements 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, exchange traded futures, and mutual and segregated funds which have available prices in an active market with no redemption restrictions.

Level 2: Fair value measurements utilize inputs 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 and most over-the-counter derivatives.

Level 3: Fair value measurements utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. The values of the majority of Level 3 securities were obtained from single broker quotes and internal pricing models. Financial assets and liabilities utilizing Level 3 inputs include certain bonds, certain asset-backed securities, some private equities, investments in mutual and segregated funds where there are redemption restrictions and certain over-the-counter derivatives.

The following presents the Company's financial assets and liabilities measured at fair value on a recurring basis by hierarchy level:

	2012			
Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Bonds	**$ -**	**$ 64,577**	**$ 273**	**$ 64,850**
Stocks	**5,946**	**7**	**12**	**5,965**
Total financial assets at fair value through profit or loss	**5,946**	**64,584**	**285**	**70,815**
Available for sale financial assets				
Bonds	**-**	**6,725**	**27**	**6,752**
Stocks	**108**	**5**	**1**	**114**
Total available for sale financial assets	**108**	**6,730**	**28**	**6,866**
Other assets - derivatives (1)	**-**	**997**	**-**	**997**
Total assets measured at fair value	**$ 6,054**	**$ 72,311**	**$ 313**	**$ 78,678**
Liabilities measured at fair value				
Other liabilities - derivatives (2)	**$ 4**	**$ 338**	**$ -**	**$ 342**

(1) Excludes collateral received of $25.
(2) Excludes collateral pledged of $101.

Assets measured at fair value	2011 Level 1	Level 2	Level 3	Total
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

[1] Excludes collateral received of $21.
[2] Excludes collateral pledged of $45.

The following presents additional information about assets measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value (the Company had no liabilities during 2012 and 2011 measured at fair value through profit or loss):

	2012				
	Fair value through profit or loss bonds	**Available for sale bonds**	**Fair value through profit or loss stocks**	**Available for sale stocks**	**Total**
Balance, beginning of year	**$ 303**	**$ 40**	**$ 14**	**$ 1**	**$ 358**
Total gains (losses)					
Included in net earnings	**42**	**-**	**(2)**	**-**	**40**
Included in other comprehensive income	**-**	**3**	**-**	**-**	**3**
Purchases	**-**	**-**	**3**	**-**	**3**
Sales	**(1)**	**(4)**	**-**	**-**	**(5)**
Settlements	**(63)**	**(5)**	**-**	**-**	**(68)**
Transfers out of Level 3	**(8)**	**(7)**	**(3)**	**-**	**(18)**
Balance, end of year	**$ 273**	**$ 27**	**$ 12**	**$ 1**	**$ 313**
Total gains (losses) for the year included in net earnings for assets held at December 31, 2012	**$ 51**	**$ -**	**$ (2)**	**$ -**	**$ 49**

	2011				
	Fair value through profit or loss bonds	Available for sale bonds	Fair value through profit or loss stocks	Available for sale stocks	Total
Balance, beginning of year	$ 312	$ 42	$ 417	$ 1	$ 772
Total gains (losses)					
Included in net earnings	52	1	35	-	88
Included in other comprehensive income	-	2	-	-	2
Purchases	-	-	65	-	65
Sales	(4)	-	(6)	-	(10)
Settlements	(57)	(5)	-	-	(62)
Transfers out of Level 3	-	-	(497)	-	(497)
Balance, end of year	$ 303	$ 40	$ 14	$ 1	$ 358
Total gains (losses) for the year included in net earnings for assets held at December 31, 2011	$ 43	$ 1	$ (3)	$ -	$ 41

9. Invested Assets on Deposit for Reinsurance Agreements

The Company has $606 ($577 in 2011) of invested assets (note 5) maintained on deposit in respect of certain reinsurance agreements. The Company retains all rights to the cash flows on these assets, however, the investment policies for these assets are governed by the terms of the reinsurance agreements.

10. Goodwill and Intangible Assets

(a) Goodwill

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

	2012	2011
Balance, beginning of year	**$ 5,401**	$ 5,397
Changes in foreign exchange rates	**(4)**	4
Balance, end of year	**$ 5,397**	$ 5,401

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

Balance, beginning of year	**$ 917**	$ 890
Changes in foreign exchange rates	**(27)**	27
Balance, end of year	**$ 890**	$ 917

(b) Intangible Assets

Intangible assets of $3,115 ($3,154 in 2011) includes indefinite life and finite life intangible assets. The carrying value and changes in the carrying value of these intangible assets are as follows:

(i) Indefinite life intangible assets:

	2012			
	Brands and trademarks	**Customer contract related**	**Shareholders' portion of acquired future participating account profit**	**Total**
Cost				
Balance, beginning of year	**$ 726**	**$ 2,321**	**$ 354**	**$ 3,401**
Changes in foreign exchange rates	**(9)**	**(57)**	**-**	**(66)**
Balance, end of year	**$ 717**	**$ 2,264**	**$ 354**	**$ 3,335**
Accumulated impairment				
Balance, beginning of year	**$ (94)**	**$ (825)**	**$ -**	**$ (919)**
Changes in foreign exchange rates	**3**	**23**	**-**	**26**
Balance, end of year	**$ (91)**	**$ (802)**	**$ -**	**$ (893)**
Net carrying amount	**$ 626**	**$ 1,462**	**$ 354**	**$ 2,442**

	2011			
	Brands and trademarks	Customer contract related	Shareholders' 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

(ii) Finite life intangible assets:

	2012					
	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**	**21 years**	**-**	**-**	**-**	
Amortization method	**Straight-line**	**Straight-line**	**Straight-line**	**Straight-line**	**Straight-line**	
Cost						
Balance, beginning of year	**$ 571**	**$ 100**	**$ 12**	**$ 13**	**$ 468**	**$ 1,164**
Acquisitions	**-**	**-**	**-**	**-**	**86**	**86**
Disposals	**-**	**-**	**-**	**-**	**(11)**	**(11)**
Changes in foreign exchange rates	**(7)**	**3**	**-**	**-**	**(3)**	**(7)**
Other	**-**	**-**	**-**	**-**	**27**	**27**
Balance, end of year	**$ 564**	**$ 103**	**$ 12**	**$ 13**	**$ 567**	**$ 1,259**
Accumulated amortization and impairment						
Balance, beginning of year	**$ (204)**	**$ (29)**	**$ (10)**	**$ (12)**	**$ (237)**	**$ (492)**
Disposals	**-**	**-**	**-**	**-**	**9**	**9**
Amortization	**(31)**	**(5)**	**(2)**	**(1)**	**(64)**	**(103)**
Balance, end of year	**$ (235)**	**$ (34)**	**$ (12)**	**$ (13)**	**$ (292)**	**$ (586)**
Net carrying amount	**$ 329**	**$ 69**	**$ -**	**$ -**	**$ 275**	**$ 673**

	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	-	-	-	-	54	54
Balance, end of year	$ 571	$ 100	$ 12	$ 13	$ 468	$ 1,164
Accumulated amortization and impairment						
Balance, beginning of year	$ (169)	$ (24)	$ (8)	$ (9)	$ (189)	$ (399)
Impairment	-	-	-	-	(4)	(4)
Changes in foreign exchange rates	(1)	(1)	-	-	(3)	(5)
Other	-	-	-	-	13	13
Amortization	(34)	(4)	(2)	(3)	(54)	(97)
Balance, end of year	$ (204)	$ (29)	$ (10)	$ (12)	$ (237)	$ (492)
Net carrying amount	$ 367	$ 71	$ 2	$ 1	$ 231	$ 672

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

	2012					
		Goodwill		**Indefinite life intangible assets**		**Total**
Canada						
Group	**$**	**1,033**	**$**	**-**	**$**	**1,033**
Individual insurance/wealth management		**2,740**		**973**		**3,713**
Europe						
Insurance and annuities		**1,500**		**109**		**1,609**
Reinsurance		**1**		**-**		**1**
United States						
Financial services		**123**		**-**		**123**
Asset management		**-**		**1,360**		**1,360**
Total	**$**	**5,397**	**$**	**2,442**	**$**	**7,839**

	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
Total	$	5,401	$	2,482	$	7,883

(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 utilizes 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 range between 0.0% and 3.0%, depending on the nature of the business.

11. Owner Occupied Properties and 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:

	2012		2011	
	Owner occupied properties	**Fixed assets**	Owner occupied properties	Fixed assets
Carrying value, beginning of year	**$ 523**	**$ 617**	$ 468	$ 580
Less: accumulated depreciation/impairments	**(32)**	**(480)**	(29)	(459)
Net carrying value, beginning of year	**491**	**137**	439	121
Additions	**31**	**64**	51	58
Disposals	**-**	**(25)**	-	(3)
Depreciation	**(5)**	**(39)**	(3)	(40)
Depreciation disposals/retirements	**-**	**20**	-	-
Net foreign exchange differences	**(3)**	**(3)**	4	1
Net carrying value, end of year	**514**	**154**	491	137
Plus: accumulated depreciation/impairments	**37**	**502**	32	480
Carrying value, end of year	**$ 551**	**$ 656**	$ 523	$ 617

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

	2012	2011
Canada	**$ 466**	$ 426
United States	**172**	175
Europe	**30**	27
Total	**$ 668**	$ 628

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

		2012		2011
Premiums in course of collection	**$**	**484**	$	422
Interest due and accrued		**1,098**		1,108
Current income taxes		**162**		181
Prepaid expenses		**92**		99
Accounts receivable		**977**		813
Defined benefit pension asset (note 23)		**415**		420
Deferred acquisition costs		**541**		529
Trading account assets in Putnam LLC [1]		**313**		207
Other [2]		**811**		504
Total	**$**	**4,893**	$	4,283

[1] Includes bonds of $225 and stocks of $88 at December 31, 2012 (bonds of $80 and stocks of $127 at December 31, 2011).

[2] Includes miscellaneous and sundry other assets of the Company

Total other assets of $3,937 ($3,334 in 2011) are expected to be realized within 12 months from the reporting date. This amount excludes deferred acquisition costs on investment contracts, the changes in which are noted below.

Deferred acquisition costs

		2012		2011
Balance, beginning of year	**$**	**529**	$	508
Additions		**120**		123
Amortization		**(69)**		(71)
Foreign exchange		**9**		6
Disposals		**(48)**		(37)
Balance, end of year	**$**	**541**	$	529

13. Segregated Funds

(a) Investments on account of segregated fund policyholders

	2012	2011
Cash and cash equivalents	**$ 4,837**	$ 5,334
Bonds	**24,070**	21,594
Mortgage loans	**2,303**	2,303
Stocks	**69,254**	63,885
Investment properties	**6,149**	5,457
Accrued income	**239**	287
Other liabilities	**(1,904)**	(2,278)
Total	**$ 104,948**	$ 96,582

(b) Investment and insurance contracts on account of segregated fund policyholders

	2012	2011
Balance, beginning of year	**$ 96,582**	$ 94,827
Additions (deductions):		
Policyholder deposits	**13,819**	13,462
Net investment income	**1,189**	755
Net realized capital gains (losses) on investments	**1,094**	1,048
Net unrealized capital gains (losses) on investments	**4,316**	(3,539)
Unrealized gains (losses) due to changes in foreign exchange rates	**(213)**	887
Policyholder withdrawals	**(11,831)**	(10,876)
Net transfer from General Fund	**(8)**	18
Total	**8,366**	1,755
Balance, end of year	**$ 104,948**	$ 96,582

14. Insurance and Investment Contract Liabilities

(a) Insurance and investment contract liabilities

	2012		
	Gross liability	**Reinsurance assets**	**Net**
Insurance contract liabilities	**$ 119,919**	**$ 2,064**	**$ 117,855**
Investment contract liabilities	**739**	**-**	**739**
Total	**$ 120,658**	**$ 2,064**	**$ 118,594**

	2011		
	Gross liability	Reinsurance assets	Net
Insurance contract liabilities	$ 114,730	$ 2,061	$ 112,669
Investment contract liabilities	782	-	782
Total	$ 115,512	$ 2,061	$ 113,451

(b) Composition of insurance and investment contract liabilities and related supporting assets

(i) The composition of insurance and investment contract liabilities is as follows:

	2012		
	Gross liability	**Reinsurance assets**	**Net**
Participating			
Canada	**$ 27,851**	**$ (88)**	**$ 27,939**
United States	**8,942**	**14**	**8,928**
Europe	**1,241**	**-**	**1,241**
Non-Participating			
Canada	**27,283**	**746**	**26,537**
United States	**17,356**	**241**	**17,115**
Europe	**37,985**	**1,151**	**36,834**
Total	**$ 120,658**	**$ 2,064**	**$ 118,594**

	2011		
	Gross liability	Reinsurance assets	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
Total	$ 115,512	$ 2,061	$ 113,451

(ii) The composition of the assets supporting liabilities and equity is as follows:

	2012					
	Bonds	**Mortgage loans**	**Stocks**	**Investment properties**	**Other**	**Total**
Carrying value						
Participating liabilities						
Canada	**$ 12,818**	**$ 6,903**	**$ 4,221**	**$ 932**	**$ 2,977**	**$ 27,851**
United States	**4,307**	**188**	**-**	**-**	**4,447**	**8,942**
Europe	**874**	**40**	**162**	**19**	**146**	**1,241**
Non-participating liabilities						
Canada	**17,519**	**4,428**	**1,565**	**3**	**3,768**	**27,283**
United States	**14,280**	**2,464**	**-**	**-**	**612**	**17,356**
Europe	**22,420**	**2,827**	**127**	**2,173**	**10,438**	**37,985**
Other	**6,507**	**493**	**-**	**4**	**108,470**	**115,474**
Total equity	**3,811**	**532**	**1,023**	**394**	**11,826**	**17,586**
Total carrying value	**$ 82,536**	**$ 17,875**	**$ 7,098**	**$ 3,525**	**$ 142,684**	**$ 253,718**
Fair value	**$ 84,040**	**$ 19,067**	**$ 7,136**	**$ 3,525**	**$ 142,684**	**$ 256,452**

	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

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) Change in insurance contract liabilities

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

	2012		
	Participating		
	Gross liability	Reinsurance assets	Net
Balance, beginning of year	$ 36,303	$ (32)	$ 36,335
Impact of new business	72	-	72
Normal change in force	1,621	(6)	1,627
Management action and changes in assumptions	(260)	(34)	(226)
Impact of foreign exchange rate changes	(262)	(2)	(260)
Impact of Crown amalgamation	529	-	529
Balance, end of year	$ 38,003	$ (74)	$ 38,077

	Non-participating			
	Gross liability	Reinsurance assets	Net	Total Net
Balance, beginning of year	$ 78,427	$ 2,093	$ 76,334	$ 112,669
Impact of new business	4,664	326	4,338	4,410
Normal change in force	(528)	35	(563)	1,064
Management action and changes in assumptions	(380)	(306)	(74)	(300)
Business movement from/to external parties	(48)	(7)	(41)	(41)
Impact of foreign exchange rate changes	310	(3)	313	53
Impact of Crown amalgamation	(529)	-	(529)	-
Balance, end of year	$ 81,916	$ 2,138	$ 79,778	$ 117,855

	2011						
	Participating						
	Gross liability		Reinsurance assets		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 assets		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

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

In 2012, the major contributors to the increase in net insurance contract liabilities were the impact of new business ($4,410 increase) and the normal change in the in force business ($1,064 increase) primarily due to the change in fair value.

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

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

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

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

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

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).

(d) Change in investment contract liabilities measured at fair value

	2012	2011
Balance, beginning of year	**$ 782**	$ 791
Normal change in force business	**(87)**	(54)
Investment experience	**51**	35
Impact of foreign exchange rate changes	**(7)**	10
Balance, end of year	**$ 739**	$ 782

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

(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 indices from a list of major indices.

(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 assumptions be offset by an equal amount of provision for adverse deviation. Appropriate provisions have been made for future mortality deterioration on term insurance.

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

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine insurance contract liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate and equity scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (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 the Canadian Asset Liability Method 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 the Company's persistency assumption for these products as the Company's own experience is very limited.

Utilization of elective policy options

There are a wide range of elective options embedded in the policies issued by 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 the Company's expectation that changes will occur in policyholder dividend scales or adjustable benefits for participating or adjustable business respectively, corresponding to changes in the best estimate assumptions, resulting in an immaterial net change in insurance contract liabilities. Where underlying guarantees may limit the ability to pass all of this experience back to the policyholder, the impact of this non-adjustability impacting shareholders 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 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.

	Increase (decrease) in net earnings after-tax	
	2012	2011
Mortality - 2% increase	**$ (208)**	$ (188)
Annuitant mortality - 2% decrease	**$ (274)**	$ (176)
Morbidity - 5% adverse change	**$ (188)**	$ (181)
Investment returns		
Parallel shift in yield curve		
1% increase	**$ 121**	$ 123
1% decrease	**$ (504)**	$ (511)
Change in equity markets		
10% increase	**$ 18**	$ 21
10% decrease	**$ (96)**	$ (57)
Change in best estimate returns for equities		
1% increase	**$ 342**	$ 292
1% decrease	**$ (376)**	$ (316)
Expenses - 5% increase	**$ (56)**	$ (55)
Policy termination - 10% adverse change	**$ (473)**	$ (435)

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.

	2012			2011		
	Gross liability	**Reinsurance assets**	**Net**	Gross liability	Reinsurance assets	Net
Canada	**$ 55,134**	**$ 658**	**$ 54,476**	$ 53,569	$ 869	$ 52,700
United States	**26,298**	**255**	**26,043**	25,296	294	25,002
Europe	**39,226**	**1,151**	**38,075**	36,647	898	35,749
Total	**$ 120,658**	**$ 2,064**	**$ 118,594**	$ 115,512	$ 2,061	$ 113,451

(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:

	2012	2011
Operating charges:		
Interest on operating lines and short-term debt instruments	**$ 4**	$ 5
Financial charges:		
Interest on long-term debentures and other debt instruments	**231**	231
Subordinated debenture issue costs	**3**	1
Net interest on capital trust securities	**27**	33
Other	**20**	19
	281	284
Total	**$ 285**	$ 289

16. Debentures and Other Debt Instruments

	2012		2011	
	Carrying value	**Fair value**	Carrying value	Fair value
Short term				
Commercial paper and other short term debt instruments with interest rates from .27% to .35% (0.20% to.39% at December 31, 2011)	**$ 97**	**$ 97**	$ 100	$ 100
Revolving credit facility with interest equal to LIBOR plus 1.00% or U.S. Prime Rate Loan (U.S. $200)	**198**	**198**	204	204
Total short term	**295**	**295**	304	304
Long term				
Operating:				
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	**2**	**2**	3	3
Capital:				
Lifeco				
6.14% Debentures due March 21, 2018, unsecured	**199**	**234**	199	229
6.74% Debentures due November 24, 2031, unsecured	**191**	**256**	190	237
6.67% Debentures due March 21, 2033, unsecured	**397**	**512**	397	472
5.998% Debentures due November 16, 2039, unsecured	**342**	**431**	343	383
4.65% Debentures due August 13, 2020, unsecured	**498**	**557**	497	522
	1,627	**1,990**	1,626	1,843
Canada Life				
6.40% subordinated debentures due December 11, 2028, unsecured	**100**	**117**	100	115
Great-West Life & Annuity Insurance Capital, LP				
6.625% Deferrable debentures due November 15, 2034, unsecured (U.S. $175)	**170**	**176**	175	170
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)	**296**	**307**	310	298
Putnam Acquisition Financing LLC				
Term note due October 18, 2015, unsecured, bearing an interest rate of LIBOR plus 0.75% (U.S. $304)	**301**	**301**	304	308
Great-West Lifeco Finance (Delaware) LP				
Subordinated debentures due June 21, 2067 bearing an interest rate of 5.691% until June 21, 2017 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1.49%, unsecured	**995**	**1,097**	994	1,028
Great-West Lifeco Finance (Delaware) LP II				
Subordinated debentures due June 26, 2068 bearing an interest rate of 7.127% until June 26, 2018 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 3.78%, unsecured	**497**	**592**	497	550
Total long term	**3,988**	**4,582**	4,009	4,315
Total	**$ 4,283**	**$ 4,877**	$ 4,313	$ 4,619

17. Other Liabilities

	2012	2011
Current income taxes	$ **649**	$ 478
Accounts payable	**1,553**	1,460
Pension and other post-employment benefits (note 23)	**683**	696
Deferred income reserve	**427**	406
Bank overdraft	**448**	437
Other	**819**	810
Total	$ **4,579**	$ 4,287

Total other liabilities of $3,469 ($3,185 in 2011) are expected to be realized within 12 months from the reporting date. This amount excludes deferred income reserve, the changes in which are noted below.

Deferred income reserve

	2012	2011
Balance, beginning of year	$ **406**	$ 377
Additions	**103**	97
Amortization	**(42)**	(38)
Foreign exchange	**8**	5
Disposals	**(48)**	(35)
Balance, end of year	$ **427**	$ 406

18. Capital Trust Securities

	2012		2011	
	Carrying value	**Fair value**	Carrying value	Fair value
Capital trust securities:				
Great-West Life Capital Trust				
5.995% due December 31, 2052, unsecured	$ **-**	$ **-**	$ 350	$ 363
Canada Life Capital Trust				
6.679% due June 30, 2052, unsecured	**-**	**-**	300	307
7.529% due June 30, 2052, unsecured	**150**	**216**	150	197
	150	**216**	800	867
Acquisition related fair value adjustment	**14**	**-**	15	-
Trust securities held by consolidated group as investments	**(45)**	**(45)**	(44)	(44)
Trust securities held by the Company as investments	**-**	**-**	(238)	(246)
Total	$ **119**	$ **171**	$ 533	$ 577

Canada Life Capital Trust (CLCT) redeemed all of its outstanding $300 principal amount Canada Life Capital Securities - Series A (CLiCS - Series A) on June 29, 2012 at par. Lifeco previously held $122 of these CLiCS - Series A as a long-term investment.

Great-West Life Capital Trust (GWLCT) redeemed all of its outstanding $350 principal amount Great-West Life Capital Trust Securities - Series A (GREATs) on December 31, 2012 at par. Lifeco previously held $116 of these capital trust securities as a long-term investment.

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

Distributions and interest on the capital trust securities are classified as financing charges on the Consolidated Statements of Earnings (see note 15). The fair value for capital trust securities is determined by the bid-ask price. Refer to note 7 for financial instrument risk management disclosures.

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

19. Non-Controlling Interests

The Company had a controlling equity interest in Great-West Life, London Life, Canada Life, Putnam LLC and Great-West Financial at December 31, 2012 and 2011.

(a) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam LLC, Great-West Financial and their subsidiaries reflected in the Consolidated Statements of Earnings are as follows:

	2012	2011
Participating account surplus in subsidiaries		
Net earnings attributable to participating account before policyholder dividends		
Great-West Life	**$ 182**	$ 173
London Life	**952**	825
Canada Life	**264**	253
Great-West Financial	**1**	5
	1,399	1,256
Policyholder dividends		
Great-West Life	**(131)**	(134)
London Life	**(745)**	(758)
Canada Life	**(246)**	(242)
Great-West Financial	**(1)**	(2)
	(1,123)	(1,136)
Net earnings - participating account surplus in subsidiaries	**276**	120
Non-controlling interests in subsidiaries	**2**	1
Total	**$ 278**	$ 121

(b) The carrying value of non-controlling interests consists of the following:

	2012	2011
Participating account surplus in subsidiaries:		
Great-West Life	**$ 559**	$ 510
London Life	**1,866**	1,651
Canada Life	**69**	55
Great-West Financial	**11**	11
Total	**$ 2,505**	$ 2,227
Non-controlling interests in subsidiaries	**$ 5**	$ 3

During 2012, London Life re-allocated the remaining 11% of its investment in LRG with a carrying value of $89 from its participating account to its shareholder account. The difference of $6 between the carrying value of the investment and the fair value of the investment of $95 was recorded as a charge to shareholder accumulated surplus and an increase in the London Life participating account surplus.

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, Great-West Financial and their subsidiaries reflected in other comprehensive income are as follows:

	2012	2011
Participating account surplus in subsidiaries		
Other comprehensive income attributable to participating account		
Great-West Life	**$ (2)**	$ 10
London Life	**2**	48
Canada Life	**(4)**	3
Great-West Financial	**-**	1
Total	**$ (4)**	$ 62

20. Share Capital

Authorized

Unlimited First Preferred Shares, Class A Preferred Shares and Second Preferred Shares,
Unlimited Common Shares with no par value

Issued and outstanding and fully paid

	2012		2011	
	Number	**Carrying Value**	Number	Carrying Value
First Preferred Shares				
Series F, 5.90% Non-Cumulative	**7,740,032**	**$ 194**	7,741,790	$ 194
Series G, 5.20% Non-Cumulative	**12,000,000**	**300**	12,000,000	300
Series H, 4.85% Non-Cumulative	**12,000,000**	**300**	12,000,000	300
Series I, 4.50% Non-Cumulative	**12,000,000**	**300**	12,000,000	300
Series L, 5.65% Non-Cumulative	**6,800,000**	**170**	6,800,000	170
Series M, 5.80% Non-Cumulative	**6,000,000**	**150**	6,000,000	150
Series P, 5.40% Non-Cumulative	**10,000,000**	**250**	-	-
Series Q, 5.15% Non-Cumulative	**8,000,000**	**200**	-	-
Series R, 4.80% Non-Cumulative	**8,000,000**	**200**	-	-
Series J, 6.00% Non-Cumulative	**9,200,000**	**230**	9,200,000	230
Series N, 3.65% Non-Cumulative	**10,000,000**	**250**	10,000,000	250
Total	**101,740,032**	**$ 2,544**	75,741,790	$ 1,894
Common shares				
Balance, beginning of year	**949,764,141**	**$ 5,828**	948,458,395	$ 5,802
Issued under Stock Option Plan	**832,299**	**20**	1,305,746	26
Balance, end of year	**950,596,440**	**$ 5,848**	949,764,141	$ 5,828

Preferred Shares

On October 11, 2012 the Company issued 8,000,000 Series R, 4.80% Non-Cumulative First Preferred Shares at $25.00 per share. The shares are redeemable at the option of the Company on or after December 31, 2017 for $25.00 per share plus a premium if redeemed prior to December 31, 2021, together in each case with all declared and unpaid dividends up to but excluding the date fixed for redemption. Transaction costs incurred in connection with the preferred share issue of $6 ($5 after-tax) were charged to accumulated surplus.

On July 6, 2012 the Company issued 8,000,000 Series Q, 5.15% Non-Cumulative First Preferred Shares at $25.00 per share. The shares are redeemable at the option of the Company on or after September 30, 2017 for $25.00 per share plus a premium if redeemed prior to September 30, 2021, together in each case with all declared and unpaid dividends up to but excluding the date fixed for redemption. Transaction costs incurred in connection with the preferred share issue of $6 ($4 after-tax) were charged to surplus.

On February 22, 2012 the Company issued 10,000,000 Series P, 5.40% Non-Cumulative First Preferred Shares at $25.00 per share. The shares are redeemable at the option of the Company on or after March 31, 2017 for $25.00 per share plus a premium if redeemed prior to March 31, 2021, together in each case with all declared and unpaid dividends up to but excluding the date fixed for redemption. Transaction costs incurred in connection with the preferred share issue of $7 ($5 after-tax) were charged to surplus.

The Series F, 5.90% Non-Cumulative First Preferred Shares are currently redeemable at the option of the Company for $25 per share. 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, together in each case with all declared and unpaid dividends to but excluding the date of redemption.

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, together in each case with all declared and unpaid dividends to but excluding the date of redemption.

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, together in each case with all declared and unpaid dividends to but excluding the date of redemption.

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, together in each case with all declared and unpaid dividends to but excluding the date of redemption.

The Series M, 5.80% Non-Cumulative First Preferred 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, together in each case with all declared an unpaid dividends to but excluding the date of redemption.

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 N, 3.65% Non-Cumulative 5 Year Rate Reset First Preferred 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.

Common Shares

On December 6, 2012, the Company announced a normal course issuer bid commencing December 9, 2012 and terminating December 8, 2013 to purchase for cancellation up to but not more than 6,000,000 common shares. No shares were repurchased under the Company's normal course issuer bid during 2012.

21. Capital Management

(a) Policies and Objectives

Managing capital is the continual process of establishing and maintaining the quantity and quality of capital appropriate for the Company and ensuring capital is deployed in a manner consistent with the expectations of the Company's stakeholders. For these purposes, the Board considers the key stakeholders to be the Company's shareholders, policyholders and holders of subordinated liabilities in addition to the relevant regulators in the various jurisdictions where the Company and its subsidiaries operate.

The Company manages its capital on both a consolidated basis as well as at the individual operating subsidiary level. The primary objectives of the Company's capital management strategy are:

- to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate;
- to maintain strong credit and financial strength ratings of the Company ensuring stable access to capital markets; and
- to provide an efficient capital structure to maximize shareholders value in the context of the Company's operational risks and strategic plans.

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

The capital planning process is the responsibility of the Company's Chief Financial Officer. The capital plan is reviewed by the Executive Committee of the Board of Directors and approved by the Company's Board of Directors on an annual basis. The Board of Directors reviews and approves all capital transactions undertaken by management.

The target level of capitalization for the Company and its subsidiaries is assessed by considering various factors such as the probability of falling below the minimum regulatory capital requirements in the relevant operating jurisdiction, the views expressed by various credit rating agencies that provide financial strength and other ratings to the Company, and the desire to hold sufficient capital to be able to honour all policyholder and other obligations of the Company with a high degree of confidence.

(b) Regulatory Capital

In Canada, Office of the Superintendent of Financial Institutions Canada 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. For this purpose, various additions or deductions from capital are mandated by the guidelines issued by Office of the Superintendent of Financial Institutions Canada. The following table provides a summary of the Minimum Continuing Capital and Surplus Requirements information and ratios for Great-West Life:

	2012	2011
Adjusted Net Tier 1 Capital	**$ 8,699**	$ 7,918
Net Tier 2 Capital	**1,710**	1,698
Total Capital Available	**$ 10,409**	$ 9,616
Total Capital Required	**$ 5,018**	$ 4,709
Tier 1 Ratio	**173%**	168%
Total Ratio	**207%**	204%

At December 31, 2012, the Risk Based Capital ratio of Great-West Financial, Lifeco's regulated U.S. operating company was estimated to be 440% of the Company Action Level set by the National Association of Insurance Commissioners. Great-West Financial reports its Risk Based Capital ratio annually to U.S. insurance regulators.

In the United Kingdom, Canada Life Limited (CLL) 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 2012, CLL complied with the minimum capital resource requirements in the United Kingdom.

Other foreign operations and foreign subsidiaries of the Company are required to comply with local capital or solvency requirements in their respective jurisdictions. At December 31, 2012 and December 31, 2011 the Company maintained capital levels above the minimum local regulatory requirements in each of its other foreign operations. One of the foreign operations is in discussions with its regulator regarding the admissibility of certain assets for the purpose of calculating such local regulatory requirements.

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 2012, 2,138,100 options were granted (1,666,100 options were granted during 2011). The weighted average fair value of options granted during 2012 was $3.17 per option ($4.39 per option in 2011). 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 2012: dividend yield 5.31%, expected volatility 24.01%, risk-free interest rate 1.66%, 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 eight 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 summarizes the status of, and changes in, options outstanding and the weighted average exercise price:

	2012		2011	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**13,384,869**	**$ 28.59**	13,577,642	$ 27.99
Granted	**2,138,100**	**23.16**	1,666,100	27.07
Exercised	**(832,299)**	**19.33**	(1,305,746)	18.37
Forfeited/expired	**(217,100)**	**28.03**	(553,127)	33.47
Outstanding, end of year	**14,473,570**	**$ 28.33**	13,384,869	$ 28.59
Options exercisable at end of year	**9,379,680**	**$ 28.93**	9,366,858	$ 27.98

The weighted average share price at the date of exercise of stock options for the year ended December 31, 2012 was $23.06 ($25.54 in 2011).

Compensation expense due to transactions accounted for as equity-settled share-based payments of $6 after-tax in 2012 ($6 after-tax in 2011) 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 Directors' services based on fair value when measuring the services received in the deferred share unit plan.

The following summarizes information on the ranges of exercise prices including weighted average remaining contractual life at December 31, 2012:

	Outstanding			**Exercisable**		
Exercise price ranges	**Options**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options**	**Weighted average exercise price**	**Expiry**
$19.42 - $37.22	1,549,040	0.51	22.20	1,549,040	22.20	2013
$24.17 - $29.84	851,000	1.31	26.68	851,000	26.68	2014
$28.26 - $29.84	1,893,000	2.95	29.82	1,893,000	29.82	2015
$27.13 - $31.27	565,400	3.51	30.32	565,400	30.32	2016
$23.16 - $37.22	1,468,100	4.19	36.69	848,524	36.37	2017
$28.59 - $31.27	3,683,270	5.39	30.69	2,949,936	30.61	2018
$25.65 - $27.13	848,500	7.25	26.95	370,600	26.96	2020
$21.73 - $27.16	1,498,260	8.17	27.06	352,180	27.07	2021
$23.16	2,117,000	9.16	23.16	-	-	2022

(b) In order to promote a greater alignment of interest between Directors and the shareholders of the Company, Great-West Life, Great-West Financial, and Putnam LLC have established voluntary Deferred Share Unit Plans and/or mandatory Deferred Share Unit Plans (the “Voluntary DSU Plans” and the “Mandatory DSU Plans” respectively) in which the Directors of the Company participate. Under the Mandatory DSU Plans, each Director who is a resident of Canada or the United States receives $50,000 of his or her annual retainer in the form of Deferred Share Units. Under the Voluntary DSU Plans, each Director may elect to receive the balance of his or her annual retainer (including Board Committee fees) and his or her attendance fees entirely in the form of Deferred Share Units, entirely in cash, or equally in cash and 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 Toronto Stock Exchange 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 generally 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 2012, $2 in directors fees were used to acquire Deferred Share Units ($2 in 2011).

(c) Effective September 25, 2007, Putnam LLC sponsored the Putnam Investments, LLC Equity Incentive Plan. Under the terms of the Equity Incentive Plan, 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 Equity Incentive Plan. 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 Equity Incentive Plan and have no rights to convert their shares in to any other securities. The number of Putnam Class B Shares that may be subject to Awards under the Equity Incentive Plan is limited to 10,000,000. The share-based payments awarded under the Equity Incentive Plan 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 Equity Incentive Plan. The fair-value of restricted Class B shares and options on Class B shares is determined on each grant date. During 2012, Putnam LLC granted 1,789,000 (1,189,169 in 2011) restricted Class B common shares and no options in 2012 or 2011 to certain members of senior management and key employees.

Compensation expense recorded for the year ended December 31, 2012 related to restricted Class B common shares and Class B stock options earned was $22 ($3 in 2011) and is recorded in operating expenses on the Consolidated Statements of Earnings. At December 31, 2012, the carrying value and intrinsic value of the restricted Class B Share and stock option liability is $99 ($101 in 2011).

(d) Certain employees of PanAgora, a subsidiary of Putnam LLC, are eligible to participate in the PanAgora Management Equity Plan 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, 2012 related to restricted Class C Shares and stock appreciation rights was $18 in 2012 ($7 in 2011) and is included as a component of operating expenses in the Consolidated Statements of Earnings. At December 31, 2012, the carrying value and intrinsic value of the Class C Share and stock appreciation rights liability is $37 ($22 in 2011).

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.

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

The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. 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-employment 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 reflects the financial position of the Company's contributory and non-contributory defined benefit plans:

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans		Other post-employment benefits	
	2012	2011	**2012**	2011
Change in Fair Value of Plan Assets				
Fair value of plan assets, beginning of year	**$ 3,137**	$ 3,122	**$ -**	$ -
Reclassification of plan assets	**(17)**	-	**-**	-
Expected return on plan assets	**176**	191	**-**	-
Employee contributions	**16**	16	**-**	-
Employer contributions	**95**	94	**17**	17
Actuarial gains (losses)	**83**	(120)	**-**	-
Benefits paid	**(169)**	(179)	**(17)**	(17)
Foreign currency exchange rate changes	**(5)**	13	**-**	-
Fair value of plan assets, end of year	**$ 3,316**	$ 3,137	**$ -**	$ -
Change in Defined Benefit Obligation				
Defined benefit obligation, beginning of year	**$ 3,470**	$ 3,192	**$ 406**	$ 402
Reclassification of liability	**(17)**	-	**-**	-
Employer current service cost	**73**	64	**2**	2
Employee contributions	**16**	16	**-**	-
Interest on defined benefit obligation	**174**	174	**20**	22
Actuarial (gains) losses	**374**	180	**9**	(3)
Benefits paid	**(169)**	(179)	**(17)**	(17)
Past service cost	**-**	2	**-**	-
Foreign currency exchange rate changes	**(9)**	21	**-**	-
Defined benefit obligation, end of year	**$ 3,912**	$ 3,470	**$ 420**	$ 406
Asset (Liability) recognized in the Consolidated Balance Sheets				
Funded status of plans - surplus (deficit)	**$ (596)**	$ (333)	**$ (420)**	$ (406)
Unrecognized past service costs (credits)	**5**	5	**(19)**	(26)
Net actuarial (gains) losses	**754**	512	**49**	43
Unrecognized amount due to limit on asset	**(41)**	(71)	**-**	-
Asset (liability) recognized in the Consolidated Balance Sheets	**$ 122**	$ 113	**$ (390)**	$ (389)
Recorded in:				
Other assets	**$ 415**	$ 420	**$ -**	$ -
Other liabilities	**(293)**	(307)	**(390)**	(389)
Asset (liability) recognized in the Consolidated Balance Sheets	**$ 122**	$ 113	**$ (390)**	$ (389)
Analysis of defined benefit obligation				
Wholly or partly funded plans	**$ 3,647**	$ 3,230		
Wholly unfunded plans	**$ 265**	$ 240	**$ 420**	$ 406
Actual return on plan assets	**$ 259**	$ 71		

The Company expects to contribute $107 to its funded and unfunded defined benefit pension and other post-employment benefit plans in 2013.

(b) Pension and Other Post-Employment Benefits Expense Recognized in Profit or Loss

	All pension plans		Other post-employment benefits	
	2012	2011	**2012**	2011
Defined benefit current service cost	**$ 89**	$ 80	**$ 2**	$ 2
Defined contribution current service cost	**26**	29	**-**	-
Employee contributions	**(16)**	(16)	**-**	-
Employer current service cost	**99**	93	**2**	2
Past service costs recognized	**-**	2	**(7)**	(7)
Interest cost on defined benefit obligation	**174**	174	**20**	22
Actuarial (gain) loss recognized	**47**	(1)	**4**	1
Expected return on plan assets	**(176)**	(191)	**-**	-
Amount recognized due to limit on asset	**(30)**	8	**-**	-
Pension and other post-employment benefits expense recognized	**$ 114**	$ 85	**$ 19**	$ 18

(c) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2012	2011
Equity securities	**51%**	46%
Debt securities	**38%**	41%
Real estate	**5%**	4%
Cash and cash equivalents	**6%**	9%
Total	**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 $1,523 ($1,430 in 2011). Plan assets do not include any property occupied or other assets used by the Company.

(d) Principal Actuarial Assumptions Used at the Balance Sheet Date

	Defined benefit pension plans		Other post-employment benefits	
	2012	2011	**2012**	2011
To determine benefit cost:				
Discount rate	**5.1%**	5.5%	**5.1%**	5.5%
Expected rate of return on plan assets, during the year	**5.7%**	6.1%	**-**	-
Expected rate of compensation increase	**3.5%**	3.6%	**-**	-
Future pension increases	**2.0%**	2.2%	**-**	-
To determine defined benefit obligation:				
Discount rate	**4.4%**	5.1%	**4.2%**	5.1%
Rate of compensation increase	**3.1%**	3.5%	**-**	-
Future pension increases	**1.9%**	2.0%	**-**	-
% of defined benefit obligation subject to future pension increases	**38.0%**	39.0%	**-**	-
Medical cost trend rates:				
Initial medical cost trend rate			**6.5%**	6.7%
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	
	2012	2011	**2012**	2011
Impact on defined benefit obligation	**$ 40**	$ 41	**$ (33)**	$ (34)
Impact on current service cost and interest cost	**$ 2**	$ 2	**$ (2)**	$ (2)

(f) Summary of Funded Status and Experience Adjustments:

	2012	2011	2010
Defined benefit pension plans:			
Defined benefit obligation	**$ (3,912)**	$ (3,470)	$ (3,192)
Fair value of plan assets	**3,316**	3,137	3,122
Funded status of plans - surplus (deficit)	**(596)**	(333)	(70)
Experience adjustments on plan liabilities	**(374)**	(180)	(329)
Experience adjustments on plan assets	**83**	(120)	99
Other post-employment benefits:			
Defined benefit obligation	**(420)**	(406)	(402)
Experience adjustments on plan liabilities	**(9)**	3	(48)

24. Earnings per Common Share

The following provides the reconciliation between basic and diluted earnings per common share:

	2012	2011
Earnings		
Net earnings	**$ 1,930**	$ 2,118
Preferred share dividends	**(115)**	(96)
Net earnings - common shareholders	**1,815**	2,022
Capital trust securities	**10**	10
Net earnings - common shareholders - diluted basis	**$ 1,825**	$ 2,032
Number of common shares		
Average number of common shares outstanding	**949,914,621**	949,323,824
Add:		
- Capital trust units	**10,406,127**	12,408,059
- Potential exercise of outstanding stock options	**262,576**	337,446
Average number of common shares outstanding - diluted basis	**960,583,324**	962,069,329
Basic earnings per common share	**$ 1.912**	$ 2.129
Diluted earnings per common share	**$ 1.900**	$ 2.112
Dividends per common share	**$ 1.230**	$ 1.230

25. Accumulated Other Comprehensive Income (Loss)

	2012					
	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**	**Shareholders**
Balance, beginning of year	**$ (365)**	**$ 223**	**$ (13)**	**$ (155)**	**$ (78)**	**$ (233)**
Other comprehensive income (loss)	**(78)**	**(39)**	**16**	**(101)**	**3**	**(98)**
Income tax	**-**	**6**	**(6)**	**-**	**1**	**1**
	(78)	**(33)**	**10**	**(101)**	**4**	**(97)**
Balance, end of year	**$ (443)**	**$ 190**	**$ (3)**	**$ (256)**	**$ (74)**	**$ (330)**

	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	Shareholders
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)

26. Related Party Transactions

Power Financial, which is incorporated and domiciled in Canada, is the Company's parent and has voting control of the Company. The Company is related to other members of the Power Financial group including IGM, a company in the financial services sector along with its subsidiaries Investors Group, Mackenzie Financial and Investment Planning Council and Pargesa, a holding company with substantial holdings in a diversified industrial group based in Europe.

(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	95.56%

(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 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 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.

The Company held debentures issued by IGM, the interest rates and maturity dates are as follows:

	2012	2011
6.65%, matures December 13, 2027	**$ 15**	$ 15
7.45%, matures May 9, 2031	**13**	12
7.00%, matures December 31, 2032	**13**	12
Total	**$ 41**	$ 39

During 2012, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $232 from IGM ($202 in 2011).

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 2012 or 2011. There were no provisions for uncollectible amounts from related parties during 2012 and 2011.

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

	2012	2011
Salary	**$ 9**	$ 12
Share-based awards	**4**	3
Option-based awards	**2**	1
Annual non-equity incentive plan compensation	**15**	15
Pension value	**3**	4
Total	**$ 33**	$ 35

27. Income Taxes

(a) Income tax receivable (payable)

		2012		2011
Balance, beginning of year	**$**	**(297)**	$	212
Current tax expense		**(407)**		(267)
Recorded in other comprehensive income		**(3)**		(27)
Payments made on account (refunds received)		**177**		(303)
Other		**43**		88
Balance, end of year	**$**	**(487)**	$	(297)

(b) Deferred income taxes consist of the following losses carried forward and taxable temporary differences:

		2012		2011
Insurance and investment contract liabilities	**$**	**(272)**	$	(321)
Portfolio assets		**(839)**		(788)
Losses carried forward		**1,160**		980
Intangible assets		**220**		296
Other		**(49)**		44
Net deferred income tax asset (liability)	**$**	**220**	$	211
Balance, beginning of year	**$**	**211**	$	387
Amounts recorded in:				
Statements of net earnings		**39**		(198)
Statement of other comprehensive income		**3**		17
Statement of changes in equity		**5**		-
Insurance and investment contract liabilities		**(8)**		(2)
Foreign exchange rate changes		**(30)**		7
Balance, end of year	**$**	**220**	$	211

A deferred income tax asset is recognized for deductible temporary differences and unused losses and carryforwards only to the extent that realization of the related income tax benefit through future taxable profits is probable.

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or tax planning opportunities available to allow the deferred income tax asset to be utilized. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred income tax assets.

Management assesses the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred income tax assets as of December 31, 2012 are recoverable.

At December 31, 2012 the Company had tax loss carryforwards totalling $3,600 ($3,013 in 2011). Of this amount, $3,471 expire between 2013 and 2032, while $129 have no expiry date. The Company will realize this benefit in future years through a reduction in current income taxes payable.

A deferred income tax liability has not been recognized in respect of the temporary differences associated with investments in subsidiaries, branches and associates as the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

One of the Company's subsidiaries has had a history of recent losses. The subsidiary has a net deferred income tax asset balance of $1,088 (U.S. $1,088) as at December 31, 2012 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 probable that the subsidiary and other historically profitable subsidiaries with which it files or intends to file a consolidated United States income tax return will generate sufficient taxable income against which the unused United States losses and deductions will be utilized. Certain state net operating losses in the amount of $46 (U.S. $46), which were incurred before 2010, other state temporary differences of $99 (U.S. $100) and federal charitable contributions of $9 (U.S. $9) have been excluded from the deferred income tax asset.

(c) Income tax expense for the year comprises current and deferred tax:

(i) Current income tax

	2012	2011
Current tax expense	**$ 388**	$ 246
Previously unrecognized tax loss; tax credit or temporary difference of prior period	**-**	5
Other	**19**	16
Total current income tax	**$ 407**	$ 267

(ii) Deferred income tax

	2012	2011
Origination and reversal of temporary difference	**$ (25)**	$ 220
Changes in tax rates or imposition of new taxes	**(4)**	(7)
Write-down or reversal of previous write-down of deferred tax assets	**(2)**	1
Previously unrecognized tax loss; tax credit or temporary difference of prior period	**(25)**	(7)
Other	**17**	(9)
Total deferred income tax	**$ (39)**	$ 198
Total income tax expense	**$ 368**	$ 465

(iii) Tax recorded in other comprehensive income (see note 25)

	2012	2011
Current tax	**$ 3**	$ 27
Deferred tax	**(3)**	(17)
Total	**$ -**	$ 10

(iv) Tax recorded in equity

	2012	2011
Current tax	**$ -**	$ -
Deferred tax	**(5)**	-
Total	**$ (5)**	$ -

(d) The Company's effective income tax rate is derived as follows:

		2012			2011	
Combined basic Canadian federal and provincial tax rate	**$**	**683**	**26.5%**	$	757	28.0%
Increase (decrease) in the income tax rate resulting from:						
Non-taxable investment income		**(188)**	**(7.3)**		(123)	(4.6)
Lower effective income tax rates on income not subject to tax in Canada		**(71)**	**(2.7)**		(89)	(3.3)
Other		**(52)**	**(2.1)**		(73)	(2.6)
Impact of rate changes on future income taxes		**(4)**	**(0.1)**		(7)	(0.3)
Effective income tax rate	**$**	**368**	**14.3%**	$	465	17.2%

There are no income tax consequences attached to the payment of dividends by the Company to its shareholders.

28. Operating and Administrative Expenses

		2012		2011
Salaries and other employee benefits	**$**	**1,827**	$	1,698
Amortization of fixed assets		**44**		43
General and administrative		**701**		707
Other (note 30)		**-**		(498) [1]
Total	**$**	**2,572**	$	1,950

[1] Other reflects adjustment for court decision on November 3, 2011 that any monies to be reallocated 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.

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, 2012, the Company received assets of $25 ($21 in 2011) as collateral for derivative contracts from counterparties and pledged assets of $101 ($45 in 2011) as collateral for derivative contracts to counterparties.

(a) The following summarizes the Company's derivative portfolio and related credit exposure using the following definitions of risk as prescribed by the Office of the Superintendent of Financial Institutions Canada:

Maximum Credit Risk	The total replacement cost of all derivative contracts with positive values.
Future Credit Exposure	The potential future credit exposure is calculated based on a formula prescribed by the Office of the Superintendent of Financial Institutions Canada. The factors prescribed by the Office of the Superintendent of Financial Institutions Canada 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 the Office of the Superintendent of Financial Institutions Canada.

	2012				
	Notional amount	**Maximum credit risk***	**Future credit exposure**	**Credit risk equivalent**	**Risk weighted equivalent**
Interest rate contracts					
Futures - long	$ 9	$ -	$ -	$ -	$ -
Futures - short	70	-	-	-	-
Swaps	2,873	361	20	377	42
Options purchased	857	46	4	39	6
	3,809	407	24	416	48
Foreign exchange contracts					
Forward contracts	300	1	3	4	-
Cross-currency swaps	8,478	581	548	1,125	79
	8,778	582	551	1,129	79
Other derivative contracts					
Equity contracts	904	8	54	56	4
Futures - long	7	-	-	-	-
Futures - short	224	-	-	-	-
	1,135	8	54	56	4
Total	$ 13,722	$ 997	$ 629	$ 1,601	$ 131

* Credit risk equivalent amounts are presented net of collateral received ($25).

	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	-
Total	$ 11,998	$ 968	$ 577	$ 1,524	$ 116

* Credit risk equivalent amounts are presented net of collateral received ($21).

(b) The following provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

	2012				
	Notional Amount				Total estimated fair value
	1 year or less	Over 1 - 5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures - long	$ 9	$ -	$ -	$ 9	$ -
Futures - short	71	-	-	71	-
Swaps	1,031	681	948	2,660	324
Options purchased	257	513	87	857	46
	1,368	1,194	1,035	3,597	370
Foreign exchange contracts					
Forward contracts	300	-	-	300	-
Cross-currency swaps	205	2,001	4,772	6,978	290
	505	2,001	4,772	7,278	290
Other derivative contracts					
Equity contracts	900	4	-	904	(5)
Futures - long	7	-	-	7	-
Futures - short	224	-	-	224	(4)
	1,131	4	-	1,135	(9)
Cash flow hedges					
Interest rate contracts					
Swaps	-	-	30	30	13
Foreign exchange contracts					
Cross-currency swaps	-	1,000	500	1,500	(8)
Fair value hedges					
Interest rate contracts					
Swaps	-	58	124	182	(1)
Total	$ 3,004	$ 4,257	$ 6,461	$ 13,722	$ 655

	2011				
	Notional Amount				Total
	1 year or less	Over 1 - 5 years	Over 5 years	Total	estimated fair value
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	233	760	114	1,107	53
	697	1,785	1,201	3,683	369
Foreign exchange contracts					
Forward contracts	224	-	-	224	(1)
Cross-currency swaps	43	1,540	4,662	6,245	314
	267	1,540	4,662	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)
Cash flow hedges					
Interest rate contracts					
Swaps	-	-	31	31	11
Foreign exchange contracts					
Cross-currency swaps	-	-	1,500	1,500	(22)
Fair value hedges					
Interest rate contracts					
Swaps	-	10	92	102	(2)
Total	$ 1,157	$ 3,355	$ 7,486	$ 11,998	$ 652

Futures contracts included in the above are exchange traded contracts; all other contracts are over-the-counter.

(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 2012, which includes interest rate contracts and foreign exchange contracts, and the anticipated net gains (losses) reclassified out of accumulated other comprehensive income within the next twelve months is $2. The maximum time frame for which variable cash flows are hedged is 32 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. Equity put options are used to manage potential credit risk impact of significant declines in certain equity markets.

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 plan In addition to the regulatory proceedings involving this partial windup, a related class action proceeding has been commenced in Ontario related to the partial windup and three potential partial windups under the plan. The class action also challenges the validity of charging expenses to the plan. The provisions for certain Canadian retirement plans in the amounts of $97 after-tax established by the Company's subsidiaries in the third quarter, 2007 have been reduced to $34 after-tax. 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 LIG in 1997 (the "Appeal Decision"). The Appeal Decision ruled the Companies achieved substantial success and required that there be adjustments to the original trial judgment regarding amounts which were to be reallocated to the participating accounts going forward. Any monies to be reallocated 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. On May 24, 2012, the Supreme Court of Canada dismissed the plaintiff's application for leave to appeal the Appeal Decision. The Appeal Decision directed the parties back to the trial judge to work out the remaining issues. On January 24, 2013 the Ontario Superior Court of Justice released a decision ordering that $285 be reallocated to the participating account surplus. The Company will be appealing that decision.

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 shareholders net earnings in 2011 by $223 after-tax.

During the subsequent event period, in response to the Ontario Superior Court of Justice decision on January 24, 2013, the Company established an incremental provision of $140 after-tax in the common shareholders account. The Company now holds $290 in after-tax provisions for these proceedings.

Regardless of the ultimate outcome of this case, there will not be any impact on the capital position of the Company or on participating policy contract terms and conditions. Based on information presently known, this matter is not expected to have a material adverse effect on the consolidated financial position of the Company.

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.

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

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 established a provision in the fourth quarter of 2011 for $99 after-tax. The dispute was resolved on January 10, 2012 and as a result, the Company no longer holds the provision.

31. Commitments

(a) Letters of Credit

Letters of credit are written commitments provided by a bank. The total amount of letter of credit facilities are U.S. $3.0 billion of which U.S. $2.7 billion are currently issued.

The Reinsurance operation from time to time uses letters of credit provided mainly as collateral under certain reinsurance contracts for on balance sheet policy liabilities.

(b) Investment Commitments

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 were $516 as at December 31, 2012 ($675 as at December 31, 2011). At December 31, 2012, $470 mature within 1 year ($555 at December 31, 2011) and $46 mature in 1 - 2 years ($79 at December 31, 2011) and no commitments mature over 2 years ($41 in 2 - 3 years at December 31, 2011).

(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:

	2013	2014	2015	2016	2017	2018 and thereafter	Total
Future lease payments	$ 99	87	72	60	48	79	$ 445

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.

The Company has established a capital allocation model to better measure the performance of the operating segments. This segmented information is presented below.

(a) Consolidated Net Earnings

	2012				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 9,581	$ 3,390	$ 5,849	$ -	$ 18,820
Net investment income					
Regular net investment income	2,542	1,309	1,814	(12)	5,653
Changes in fair value through profit or loss	658	476	1,509	-	2,643
Total net investment income	3,200	1,785	3,323	(12)	8,296
Fee and other income	1,101	1,226	618	-	2,945
Total income	13,882	6,401	9,790	(12)	30,061
Benefits and expenses:					
Paid or credited to policyholders	9,770	4,437	8,244	-	22,451
Other	2,414	1,371	701	160	4,646
Financing charges	131	135	18	1	285
Amortization of finite life intangible assets	45	48	10	-	103
Earnings before income taxes	1,522	410	817	(173)	2,576
Income taxes	212	68	115	(27)	368
Net earnings before non-controlling interests	1,310	342	702	(146)	2,208
Non-controlling interests	269	3	6	-	278
Net earnings	1,041	339	696	(146)	1,930
Preferred share dividends	79	-	22	14	115
Net earnings before capital allocation	962	339	674	(160)	1,815
Impact of capital allocation	78	(14)	(56)	(8)	-
Net earnings - common shareholders	$ 1,040	$ 325	$ 618	$ (168)	$ 1,815

	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
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

(b) Consolidated Total Assets

	2012			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	**$ 58,461**	**$ 28,722**	**$ 32,828**	**$ 120,011**
Goodwill and intangible assets	**5,098**	**1,721**	**1,693**	**8,512**
Investments on account of segregated fund policyholders	**54,341**	**23,809**	**26,798**	**104,948**
Other assets	**3,434**	**3,311**	**13,502**	**20,247**
Total	**$ 121,334**	**$ 57,563**	**$ 74,821**	**$ 253,718**

	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
Investments on account of segregated fund policyholders	49,622	22,359	24,601	96,582
Other assets	3,453	3,050	12,500	19,003
Total	$ 114,538	$ 54,581	$ 69,649	$ 238,768

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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, 2012 and 2011, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated 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, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants

February 7, 2013
Winnipeg, Manitoba